

## Report to Budget Committee

**To:** Chair and Members  
Budget Committee

**From:** Anna Lisa Barbon, CPA, CGA  
Deputy City Manager, Finance Supports

**Subject:** 2024-2027 Multi-Year Budget Reconciliation to the Public Sector Accounting Board (PSAB) Financial Statement Budget

**Date:** February 27, 2024

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports:

- a) The “Public Sector Accounting Board Reconciliation” (Reconciliation) regarding expenses excluded from the Mayor’s proposed 2024-2027 Multi-Year Budget (attached as Schedule A) **BE ADOPTED**, it being noted that the Reconciliation was presented in the draft 2024-2027 Multi-Year Budget released at the Strategic Priorities and Policy Committee on December 12, 2023; and
- b) Civic Administration **BE DIRECTED** to update the Reconciliation to reflect the consolidated budget figures once available.

## Linkage to the Corporate Strategic Plan

Council’s 2023-2027 Strategic Plan for the City of London identifies ‘Well-Run City’ as a strategic area of focus. The City of London’s Multi-Year Budget (MYB) process is specifically listed as a strategy under this strategic area of focus: ‘Develop and monitor the Multi-Year Budget to align financial resources with Council’s Strategic Plan.’ The implementation of a MYB signifies that the City is looking beyond a short-term focus when planning its finances. This results in improved accountability and transparency over spending changes and helps the City maintain positive operating results, stable debt levels, and strong liquidity, reflected in the continued affirmation of the City’s Aaa credit rating (47 consecutive years).

## Analysis

### 1.0 Background Information

#### 1.1 Previous Reports Related to this Matter

December 12, 2023, Strategic Priorities and Policy Committee – Release of the Draft 2024-2027 Multi-Year Budget: <https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=105166>

### 2.0 Discussion and Considerations

Ontario Regulation (O. Reg.) 284/09: Budget Matters – Expenses permits municipalities to exclude certain expenditures from the budget for the municipality. These expenses include:

- 1) Amortization expenses;
- 2) Post-employment benefits expenses; and
- 3) Solid waste landfill closure and post-closure expenses.

These expenditures are presented in year-end financial statements in accordance with Public Sector Accounting Board (PSAB) accounting standards but are instead reflected in the municipal budget in terms of their cash impact (e.g. amortization expenses are instead represented as lifecycle renewal capital expenditures in the budget). This is known as the modified accrual method of budgeting common amongst most municipalities.

However, O. Reg. 284/09 also requires that the municipality, before adopting a budget for the year:

- a) Prepare a report about the excluded expenses; and
- b) Adopt the report by resolution.

The City of London will fulfill this requirement by adopting the Public Sector Accounting Board Reconciliation regarding expenses excluded from the Mayor's proposed 2024-2027 Multi-Year Budget. The Reconciliation was first presented on pages 23 to 26 of the Civic Administration draft 2024-2027 Multi-Year Budget released at the Strategic Priorities and Policy Committee on December 12, 2023 (see Schedule A attached). After the ultimate adoption of the 2024-2027 Multi-Year Budget, an updated version of this Reconciliation will be included in the consolidated budget, which will reflect any updates resulting from budget amendments made by Council.

Historically, the required resolution was incorporated in the various administrative budget resolutions addressed by Council during budget deliberations. However, with the introduction of the new Strong Mayor powers, the previous budget resolutions are no longer required in the new procedures for adoption of the budget. As a result, to maintain compliance with the requirements of O. Reg. 284/09, Budget Committee and Council are respectfully requested to adopt the Public Sector Accounting Board Reconciliation.

## **Conclusion**

To ensure compliance with Ontario Regulation (O. Reg.) 284/09: Budget Matters – Expenses, Budget Committee and Council are requested to adopt the Public Sector Accounting Board Reconciliation; this report was presented in the draft 2024-2027 Multi-Year Budget released at the Strategic Priorities and Policy Committee on December 12, 2023. This report also seeks direction for Civic Administration to update the Reconciliation to reflect the final budget figures once available to be incorporated in the consolidated budget.

**Submitted by:** **Kyle Murray, CPA, CA**  
**Director, Financial Planning & Business Support**

**Recommended by:** **Anna Lisa Barbon, CPA, CGA**  
**Deputy City Manager, Finance Supports**

## SCHEDULE A – Public Sector Accounting Board Reconciliation

### Public Sector Accounting Board Reconciliation

#### Reconciliation of Draft Budgets (Property Tax, Water, Wastewater and Treatment) to Public Sector Accounting Board Financial Statement Budget

Ontario municipalities must adhere to Public Sector Accounting Board (PSAB) accounting standards and reporting requirements. As allowed under Ontario Regulation 284/09, when preparing the budget, The City of London, like most municipalities, excludes typical PSAB items such as costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report to Council on the impact of these excluded costs prior to budget approval.

The tables on the following pages show the 2023 Approved Budget and the 2024 to 2027 Draft Budgets plus adjustments to comply with PSAB format, including the following items:

1. Expenses for the amortization of tangible capital assets.
2. Reserve fund contributions and pay as you go contributions for capital asset additions.
3. The current year's post-employment benefit expense for early retirement and accrued sick leave for employees that are eligible for these benefits. The City's consolidated liability as at December 31, 2022 was \$206.5 million. Reserve fund balances of \$188.6 million as of December 31, 2022 are available to offset this obligation. The City makes reserve fund contributions to offset the liabilities created from post-employment expenses depending upon generated surpluses and personnel cost savings.
4. The City has a landfill closure and post-closure liability of \$54.2 million. The Sanitary Landfill Reserve Fund, with a balance of \$33.1 million as of December 31, 2022, is for sanitary landfill activity and funds could be utilized to partially offset this liability.

If the above items were included in the 2024 to 2027 budgets, the projected annual PSAB surplus would increase.

### Reconciliation of Draft Budgets to PSAB Financial Statement Budget (\$ Thousands)

Property Tax, Water and Wastewater and Treatment Budgets –		2023	2024 Draft	2025 Draft	2026 Draft	2027 Draft
Revenues		Approved Budget	Budget	Budget	Budget	Budget
Property Tax		736,458	776,026	812,422	847,328	892,467
Government Grants and Subsidies		248,521	331,396	335,232	337,106	339,174
User Fees		269,928	287,266	298,673	310,589	323,164
Municipal Revenues - Other		85,107	105,060	107,249	96,457	97,815
Municipal Revenues - Transfers from Capital		216	0	0	0	0
Municipal Revenues - Transfers from Reserves and Reserve Funds		9,260	8,090	5,777	11,264	5,626
<b>Total Revenues per Draft Budgets</b>		<b>1,349,490</b>	<b>1,507,838</b>	<b>1,559,353</b>	<b>1,602,744</b>	<b>1,658,246</b>
Add/Less: PSAB related adjustments for full accrual budgeting:						
Reconciliation Type	Description					
Deduct Revenue	Transfers from Capital	-216	0	0	0	0
Deduct Revenue	Transfers from Reserves and Reserve Funds	-9,260	-8,090	-5,777	-11,264	-5,626
PSAB Adjustment	Capital program funding earned in year <sup>1</sup>	109,232	53,063	37,538	41,528	29,401
PSAB Adjustment	Developer contributions of assumed tangible capital assets <sup>4</sup>	53,661	68,416	69,109	70,704	76,136
PSAB Adjustment	Obligatory reserve fund deferred revenue earned in year - DC, Canada Community-Building Fund <sup>6</sup>	39,161	55,563	58,073	58,433	58,908
PSAB Adjustment	Government Business Enterprises adjustments <sup>7</sup>	6,930	12,175	13,804	16,757	17,082
PSAB Adjustment	Other	6,449	17,199	16,557	16,718	17,417
<b>Total PSAB adjustments to Revenue Draft Budgets</b>		<b>205,956</b>	<b>198,327</b>	<b>189,304</b>	<b>192,876</b>	<b>193,318</b>
<b>Total Budgeted Revenues for financial statement purposes</b>		<b>1,555,446</b>	<b>1,706,164</b>	<b>1,748,656</b>	<b>1,795,620</b>	<b>1,851,565</b>

Subject to rounding.

## Reconciliation of Draft Budgets to PSAB Financial Statement Budget (\$ Thousands)

Property Tax, Water and Wastewater and Treatment Budgets – Expenses		2023 Approved Budget	2024 Draft Budget	2025 Draft Budget	2026 Draft Budget	2027 Draft Budget
Personnel Costs		463,257	488,254	509,857	531,497	552,942
Administrative Expenses		16,947	19,129	19,464	19,683	19,992
Financial Expenses - Other		11,408	12,452	12,521	12,586	12,653
Financial Expenses - Interest and Discount on Long-term Debt		4,638	3,568	3,158	8,548	11,637
Financial Expenses - Debt Principal Repayments		31,969	23,293	22,031	20,231	31,655
Financial Expenses - Transfers to Reserves and Reserve Funds		134,311	153,573	161,850	166,744	170,551
Financial Expenses - Transfers to Capital		102,736	103,282	106,885	110,610	114,464
Purchased Services		264,889	352,347	357,359	351,127	356,480
Materials and Supplies		85,223	90,865	94,933	99,075	102,220
Vehicle and Equipment		32,962	38,914	39,908	41,587	42,009
Transfers		220,485	238,620	248,196	258,512	261,758
Other Expenses		11,588	14,733	15,187	15,549	15,728
Recovered Expenses		-30,923	-31,192	-31,996	-33,005	-33,843
<b>Total Expenses per Draft Budgets</b>		<b>1,349,490</b>	<b>1,507,838</b>	<b>1,559,353</b>	<b>1,602,744</b>	<b>1,658,246</b>
Add/Less: PSAB related adjustments for full accrual budgeting:						
Reconciliation Type	Description					
Addback Expense	Transfers to Reserves and Reserve Funds	-134,311	-153,573	-161,850	-166,744	-170,551
Addback Expense	Transfers to Capital	-102,736	-103,282	-106,885	-110,610	-114,464
Addback Expense	Debt principal repayments	-31,969	-23,293	-22,031	-20,231	-31,655
PSAB Adjustment	Capital projects not resulting in tangible capital assets <sup>2</sup>	79,896	85,159	72,245	61,823	51,400
PSAB Adjustment	Amortization <sup>3</sup>	182,034	173,153	177,326	181,855	186,999
PSAB Adjustment	Loss on disposal of tangible capital assets <sup>5</sup>	2,700	4,802	4,820	4,827	4,249



PSAB Adjustment	Asset retirement obligation <sup>8</sup>	479	493	505	518	533
PSAB Adjustment	Employee future benefit liability <sup>9</sup>	4,561	11,527	13,404	12,026	11,533
Total PSAB adjustments to Expense Draft Budgets		654	-5,014	-22,466	-36,536	-61,956
Total Budgeted Expenses for financial statement purposes		1,350,144	1,502,824	1,536,887	1,566,208	1,596,290
Budgeted Annual Surplus for financial statement purposes		205,303	203,340	211,770	229,412	255,274

Subject to rounding.

## PSAB Reconciliation Notes

1. Represents capital revenue such as provincial and federal grants and other contributions. Does not include debenture financing, transfers from operating or reserve funds. Estimate is based on the approved capital budget for the respective years 2024 to 2027.
2. For PSAB purposes, any expenses not considered to be part of the cost of a tangible capital asset are expensed as operating expenses. Therefore, although funded through capital, these expenses will be included in the operating expenses in the year incurred and will be reflected in the Statement of Operations on the financial statements. Estimate based on 5 year rolling average % of the capital expenditure budget, based on 2018-2022 actuals.
3. Represents the annual write-down of the tangible capital assets over the useful life of the asset. Estimate based on 5 year rolling average.
4. Contributed tangible capital assets are tangible capital assets that become the ownership of the City when a subdivision is assumed by the City. These assets are recognized at estimated fair market value during the year of assumption. These assets are predominantly comprised of roads infrastructure. Estimate based on 5 year rolling average.
5. When an asset is replaced prior to the end of its useful life, an adjustment must be made to expense the remaining book value. Amount fluctuates from year to year. Estimate based on 5 year rolling average.
6. Transactions recorded directly to reserve funds must be accounted for through the operating or capital fund. This includes recognition of development charge levies and Canada Community-Building Fund grants earned in the year.
7. London Hydro Inc., Fair-City Joint Venture and City-YMCA Joint Venture are considered Government Business Enterprises (GBE). At year end, the City must record the City's share of earnings based on our percentage ownership in each GBE. Estimate based on 5 year rolling average.
8. Represents the annual increase in the estimated future cost of post-closure related to landfills. A new accounting standard will be implemented for 2023 and this expense will be renamed Asset Retirement Obligation. Estimate based on 2023 estimate and 5 year rolling average based on amortization.
9. Represents the annual change in the estimated future costs of employee benefits. Estimate based on 5 year rolling average.