

# COUNCIL REPORT

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**Meeting Date:** September 2, 2025  
**Department:** Finance-Treasury  
**Report No.:** FIN-2025-17  
**Submitted by:** William (Bill) Dakin, Director of IT/Finance-Treasurer  
**Approved by:** Rob Browning, Chief Administrative Office

**SUBJECT:** Alignment of Municipal Budgeting with Accrual Accounting Principles

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**RECOMMENDATION: THAT: Council receive report FIN-2025-17 for information.**

**BACKGROUND:**

- **Ontario (and much of Canada):** Municipalities continue to prepare their **budgets on a cash or modified-cash basis**, despite their *financial statements* being prepared on a full accrual basis per Public Sector Accounting Standards (PSAS)
- Under the **Municipal Act, 2001 (Ontario)**, budgeting must ensure a *balanced cash-operating budget* every year. Accrual-based budgeting is not mandated.

Municipal budgets in Ontario are prepared on a cash-operating basis as required by the Municipal Act, 2001. This means that revenues and expenses are recognized when funds are received or spent, ensuring a balanced annual operating budget.

In contrast, the Municipality's audited financial statements are prepared using full accrual accounting in accordance with Public Sector Accounting Standards (PSAS). Accrual accounting recognizes revenues when earned and expenses when incurred, including non-cash items such as amortization of assets and post-employment benefits.

This difference in accounting bases creates challenges in aligning the annual budget with the year-end audited financial statements.

## COMMENTS:

The Public Sector Accounting Board (PSAB) has identified this misalignment as a concern for financial transparency and comparability across the municipal sector. PSAB has recently issued new standards requiring that:

- Budgets presented in financial statements must be prepared on the same accounting basis, scope, and classifications as the financial statements; or
- Where a municipality uses a different basis (e.g., cash-operating for the annual budget), a clear reconciliation must be provided between the budget figures and actual results.

These standards are intended to improve consistency and clarity for elected officials, staff, auditors, and the public. They are expected to take effect for fiscal years beginning in 2026.

### What Might Be Changing

- The **Public Sector Accounting Board (PSAB)** has put forward proposals to improve alignment between budgets and financial statements. It wants to see budgets and financial statements prepared using the **same accounting basis, scope, and classifications** [Open Council](#).
- Specifically, PSAB's updated standards would require that *budget amounts shown in financial presentations* use the same accounting framework as actual results, or include an understandable reconciliation if they differ [Open Council](#).

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### Summary Table

Aspect	Current Practice	Future Direction / Proposal
Budgeting Basis	Cash or modified-cash (Ontario: cash-operating)	No legal requirement to switch to accrual budgeting
Financial Statements	Full accrual (as required by PSAS)	Already done for compliance with accounting standards
Budget–Statement Alignment	Typically, mismatched bases and presentation	PSAB proposes mandated alignment via same basis or reconciliations

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So, to be clear:

- It is not a requirement that municipalities *must* budget using the accrual method.
- The requirement remains that budgets are balanced on a **cash-operating basis**, and accrual budgeting remains optional.
- PSAB is pushing for greater consistency between budgets and financial statements starting with Year Ends in 2026—but this is about alignment in reporting, *not a legal mandate to fully adopt accrual budgeting across the board* [Open Council](#).
- Strathroy-Caradoc has since 2012 provided a note to the Financial Statements: *“The budget approved by Council was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards) which is allowable as per Ontario Regulation 284/09 of the Municipal Act. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget expensed all tangible capital expenditures rather than including amortization expense.”*
- Strathroy- Caradoc updated that note in 2017 to read: *“The budget approved by Council was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards) which is allowable as per Ontario Regulation 284/09 of the Municipal Act. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting.”*
- As well in 2017 we added a table to reconcile the approved budget to the budget figures presented in the financial statements. This is what will be required in 2026, and we have been doing that in some fashion since 2012.

#### **CONSULTATION:**

Lindsay Laskey – Manager of Accounting-Deputy Treasurer

#### **FINANCIAL IMPLICATIONS:**

- Finance staff will monitor PSAB updates and provincial guidance.
- Options for enhanced alignment or gradual adoption of accrual principles in municipal budgeting may be brought forward for Council’s consideration as part of long-term financial planning.

#### **ALTERNATIVE(S) TO THE RECOMMENDATION:**

1. Council to provide alternate directions.

#### **STRATEGIC PLAN ALIGNMENT:**

This matter is in accord with the following strategic priorities: Households and businesses in Strathroy-Caradoc will be supported by reliable, financially responsible, and well-maintained infrastructure networks.

#### **ATTACHMENTS:**

None