



Grant Thornton

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Best Practices in Municipal Budgeting and Reporting

Association of Municipal Administrators

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Agenda

- Overview of Municipal Budgeting
- Budgeting process
- Cash vs Accrual
- PSAS requirements for Budget

Municipal Budgeting

- Annual process involving staff and Council. The Budget is a living process and tool used to direct staff by setting goals and objectives of the Municipality on an annual basis
- Needs to mesh the requirements of operating all municipal functions in an effective manner and meeting the requirements of the Municipal taxpayers and inhabitants (Residential and Commercial)

Municipal Budgeting

- Practices and procedures vary widely around the province depending on complexity of Municipality
- Requires data that is as accurate as possible for both historical spending and future operations and capital needs.
- Involves *Annual and long term Plans*

Municipal Budgeting

- It is important that the Budget Process to be followed each year be **documented**. The process needs to be reviewed before it begins so all parties understand the requirements. **Council should confirm the process** before it begins
- The process needs to be set up on a timeline that is adopted by Council
- The Timeline needs to be cognizant of outside requirements for information and the ability of the staff to meet the deadlines
- An optimum deadline to set the budget **before** the fiscal year starts. Staff then have their guidelines and expectations for spending money before the year starts. Stops the process of "last minute" purchases to use up budget allocations.
- Any tax rate changes need to be approved by March 31st deadline to be included in property tax bills sent out by province

Municipal Budgeting

- Start with Long Term Plans and incorporate these into the Annual Document
- Long Term Budgeting should be at least 5 years, with an optimum of 10 year plans.
- Long Term Budgeting is now a requirement of Gas Tax Agreement.
 - Must have a Capital Investment Plan

Budgeting Process

- Gathering your Data
 - Inventory all your Resources that incur costs:
 - Human Resources
 - Materials & tools
 - Insurance
 - Repayment of Debt
 - Assets
 - Infrastructure including Roads, Bridges, Water, Sewer, Buildings
- Use Historical Costs and Projections based on information from outside sources that have indicated changes to costs in upcoming years

Budgeting Process

- Gathering your Data
 - Gather information on revenues that will affect the budget:
 - Taxation
 - Grants
 - User Fees
 - Proceeds from Debt
 - Funding from reserves
 - Miscellaneous Income such as Donations
- Estimate costs for current needs of operations, along with future requirement such as new services and capital requirements.

Municipal Budgeting

Budget Process

- Some municipalities have Council review all items at the beginning of the process, others have staff prepare the initial data gatherings
- Best practices seem to indicate a good process incorporates:
 - A strategic planning sessions every 2 to 4 years
 - Long term capital budget reviewed by Council annually,
 - Council together with senior staff developing an annual guideline (at the beginning of the process) with their top priorities for the year being documented

Municipal Budgeting

Budget Process

- Budget can be presented at a public meeting before it is adopted by Council in order to ensure the document meets the needs of the community
- The final adopted budget must be communicated back to line staff to ensure implementation of the requirements to meet the approved projects.
- In year amendments to the budget occur. They occur because of new grant programs, inability to meet estimated costs on projections, emergencies and other unforeseen circumstances. These changes in the budget need to be reported back to Council and approved by them. How they are funded is especially important as tax rates don't change after the initial budget is set.

Municipal Budgeting

Cash VS Accrual

- Cash Budgeting is how most municipalities have always budgeted in the past. They calculate costs, less revenues for the current year and determine the tax rate.
- Accrual Budgeting incorporates the above method but adds in amortization of Tangible Capital Assets. The intent is for municipalities to prepare budgets that include enough funds raised through taxation to cover future replacement costs for Tangible Capital Assets.
- Recording of financial data under the accrual method has been used in the Private Sector for years and is now a requirement under the Public Sector Accounting Board standards that has been approved by Provincial Legislation.

Accrual Budgeting

Pros

- Closely aligns with reporting of actual results – consequently more accountability and transparency
- May improve information for decision makers
- Can be more future focused as must consider future funding obligations as the expenses are incurred
- Smooths the effects of significant transactions/funding requirements over time

Accrual Budgeting

Pros

- Generally matches revenue collected to use of assets or incurrence of liabilities – people are paying for what they are using today
- Removes the ability to manage bottom line through timing of payments
- Consistency with provincial and federal government and other municipal governments
- Information is required to comply with legislative requirements and accounting standards

Accrual Budgeting

Cons

- Harder for Council and the public to understand - may result in less transparency
- May result in a significant funding deficit and the resulting increase in taxes would not be acceptable or affordable
- May require significant investment in resources - infrastructure and time

Accrual Budgeting

Cons

- Significant estimates involved in setting policies - bias can influence results
- Does not necessarily present a comprehensive picture of sustainability (i.e. is amortization a representative estimate for future asset needs?)
- Reduces autonomy of the municipality when it comes to finances - accounting principles are being used to establish funding requirements

Budgeting

Accrual to cash budgeting

- Include a reconciliation at the bottom of the accrual budget to adjust it back to cash basis
 - Determine actual cash needs for the year (any borrowing outside of capital)

| | |
|------------------------------|--------------|
| Annual Surplus | <u>xxxx</u> |
| Add | |
| Amortization | xxxx |
| Change in Pension | <u>xxxx</u> |
| Less | |
| Government transfers capital | -xxxx |
| Princial repayments | <u>-xxxx</u> |
| Cash surplus deficit | <u>xxxx</u> |

Municipal Budgeting

- Public Sector Accounting Standards (PSAS 1201.130) requires the financial statements to include a "comparison of the results for the accounting period with those originally planned" (budgeted)
- Since it is required it cannot be considered "supplementary information"
- The following would not be considered appropriate:
 - Including a note in the financial statements referring to the budgeted numbers as being unaudited
 - Having the budget column marked as "unaudited"

Municipal Budgeting

- Budget must comply with PSAS and contain all items required by PSAS such as
 - Amortization
 - Government transfers as income
 - Statement of net assets/debt
 - use of prepaids
 - purchase of tangible capital assets
- If original does not comply with the standards, a Note is required to reconcile the original budget to what is presented in the financial statements

Municipal Budgeting

5. Budget figures

Public Sector Accounting Standards require a comparison of the results for the period with those originally planned on the same basis as that used for actual results. The fiscal plan in the statement of operations and statement of changes in net debt has been adjusted to be presented on a consistent basis as actual results. Below is a reconciliation of the figures from the approved fiscal plan to the fiscal plan per the consolidated financial statements:

| | Approved fiscal plan | Adjustments | Fiscal plan per consolidated financial statements |
|---|-------------------------|--------------------|---|
| <u>Statement of operations</u> | | | |
| Revenue | \$265,420 | \$ - | \$ 265,420 |
| Expenses | <u>182,243</u> | <u>60,000</u> | <u>242,243</u> |
| Net revenue (expense) | <u>\$ 83,177</u> | <u>\$ (60,000)</u> | <u>\$ 23,177</u> |
| | Approved fiscal plan | Adjustment | Fiscal plan per consolidated financial statements |
| <u>Statement of changes in net debt</u> | | | |
| Annual surplus | \$ 83,177 | \$ (60,000) | \$ 23,177 |
| Amortization | | 60,000 | 60,000 |
| Acquisition of capital assets | (52,400) | | (52,400) |
| Change in prepaid expenses | <u>-</u> | <u>(3,000)</u> | <u>(3,000)</u> |
| Change in net debt | <u>\$ 30,777</u> | <u>\$ (3,000)</u> | <u>\$ 27,777</u> |

Municipal Budgeting

- Only budget requirements of Municipalities Act

| | |
|-------------------|--|
| Budgets | 35. The estimates and budget of a municipality shall be fixed on or before April 1 in each year. 1983, c.33, s.36. |
| Deficit budgeting | 35.1 The council shall not project a deficit in its estimates and budget for any fiscal year in respect of expenditures other than capital expenditures. 2008,c.53,s.1. |

Municipal Budgeting Summary

- Gather data through Inventorying Municipal Assets, Goods and Services.
- Adopt a formal Budget Procedure including a reasonable timeline.
- Adopt Annual and Long Term Budgets. Review and re-adopt Long Term Budgets with the annual budget.
- Communicate Budget documents to Council, Staff and Public.
- Be aware of changing legislation requirements related to the Budget and Financial Reporting.



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Thank you!

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