

United Townships of Head, Clara & Maria  
Municipal Council

**Type of Decision**

Meeting Date	Aug 22, 2014			Report Date	July 16, 2014				
Decision Required		Yes	X	No	Priority		High	x	Low
Direction		Information Only		X	Type of Meeting	X	Open		Closed

**REPORT TITLE**

Treasurer's Report – Information Only # 22/08/14/803

**Treasurer's Report – Financial Reporting In Municipalities – 3 part webinar**

I have completed a three part webinar on Financial Reporting for Municipalities. It was quite informative, not to mention great to know that some of the suggested financial reporting is currently being practiced at HCM. Please see details below:

**Part 1 - Strategic financial plans/reports that SHOULD influence Council's decision-making, June 19, 2014 - this webinar focused on:**

**Types of financial reports in a municipality**

- **Statutory reports**
  - Prescribed by legislation/regulation, Municipal Act, 2001
  - Ontario Regulation 284/09; Development Charges Act, 2007
  - Financial Information Return (FIR) - Detailed instructions and templates from Ministry of Municipal Affairs and Housing (MMAH)
  - Financial Statements following Public Sector Accounting Board (PSAB) guidelines
- **Requirements of grant/funding/cost-sharing agreements**
  - Gas Tax funding (Provincial & Federal)
  - Subsidies from: Ministry of Health and Long Term Care, Ministry of Community and Social Services, Ministry of Municipal Affairs and Housing
- **Special purpose reports**
  - Agreements with another level of government, agency, private corporation
  - Meet legal compliance requirements such as, HST reporting
- **Council/management reports**
  - Annual Operating Budget
  - Monthly Budget Variance reports
  - Capital project status reporting; Long-term / strategic
  - Multi-year capital budget and financing plan

- Development Charges study and recommendations

### **What is a municipal accountability framework**

- Evolving Municipal Environment - old model vs new model
- A lens through which to view accountability
- Multi-dimensional, requires new and different skills
- Organizational, individual
- Must consider and plan for strategic influences and outcomes
- Multiple stakeholders, more complex relationships
- Embedded or reflected in your municipalities vision, mission, value statement, strategic directions

### **The role of financial plan/reporting in a municipal accountability framework**

- *Importance of Financial Reporting*
  - Provides financial accountability to stakeholders
  - Provincial oversight and stewardship of resources
  - Universally accepted financial assessment tool
  - Regulatory/contractual requirement
  - Perspective on financial health of the municipality
  - Provide cost of service / pricing of services
  - Day-to-day management tool
- *Role of Strategic Financial Plans/Reports*
  - Bring the impacts on long-term financial sustainability to the table for Council and the community
  - Raise important questions such as, what will this cost the municipality? Is this a cost we are willing and able to pay? What plan do I have in place to address these costs? What are the implications of not addressing these costs?
  - Provide a forum for engagement of stakeholders
  - Require rational decision-making AND "outside-the-box" thinking by both staff and Council
  - Influence Council perspective on the day-to-day issues

### **What types of strategic financial reports/plans should be brought forward to Council?**

- *Strategic Financial Plans/Reports*
  - Identify and report on financial implications in the future of both decisions that have been made and proposed actions
  - Council sees many plans and reports and sometimes the financial implications - particularly if they are off in the future - tend to get lost
  - Present financial implications so Council and the community can directly relate, i.e. impact on tax rates, user rates, debt levels
  - Require multiple steps/phases/iterations
  - Facilitate the development and eventual approval of a plan to address these financial challenges. This is not an option. The long-term implications are serious, Not a "finance" responsibility. It is a corporate responsibility

- *Report to Council*
  - Discuss the analysis of a multi-year capital program and available funding
  - What is the estimated funding gap?
  - How does the funding gap relate to taxes, user rates, and debt levels?
  - What are the risks and limitations associated with our present practice?
  - What multi-year capital funding/financing options are recommended to address this funding gap?
  - What policy changes are required?
  - How will this be integrated into the operating budget?
  - How will Council continue to be engaged in the process to address this situation?
- *Long Term Growth Strategy - A Reality Check*
  - What resources do we need to implement it?
  - What incentives do we have to stimulate or direct development?
  - Tax Policy
  - Waivers of fees and charges
  - Community Improvement plans (HCM is currently working on i.e. Recycling awareness/promoting), business parks
  - Improved customer service (Always looking at ways to improve)
  - Do we have a policy re: Municipal properties and land?
  - What infrastructure investments support our strategy?
  - Development Charge (DC) funding for growth-related infrastructure; DC rates generally increasing to match "real" cost of growth
  - Is our DC by-law reflective of our current economic reality?
  - What is the cost of not having a long-term growth strategy?

**Why these plans/reports are important to your taxpayers, your council and other stakeholders**

- *Importance of Strategic Financial Plans/Reports*
  - Key expectation of management accountability framework
  - *Understanding of Risk:*
    - Potential impact far more significant than a one-year budget will influence Council perspective/decision-making on day-to-day issues
    - Opportunity to engage Senior management team, Community and other stakeholders
    - Need to consider and introduce long-term solutions over time with support from stakeholders
    - Complements and leads into the annual operating and capital budget process

**What is the role of Council and departments in driving these types of financial plans/reports?**

- *Role of Departments*
  - Departments take the first step

- Plans, activities and projects are driven by operational and customer needs
- Departments work with Finance to develop reasonable expenditure and revenue projections
- Implications of changes in assessment, projected corporate revenue trends, funding pressures and other organization-wide estimates are reviewed and validated by departments where appropriate
- Municipal networking at the business level (roads, recreation) brings their experiences and a different perspective to the table
- The discussion around the scope of the challenge ahead, how to frame it for Council and next steps must take place at the senior management team table
- Accountability for recommendations to Council unifies the organization in tackling an important corporate challenge.
- *Role of Council*
  - Ask questions
  - What does this plan/proposal cost?
  - How are we paying for it?
  - What options do we have to address this cost?
  - Long term financial plans provide a "reality check" and a pathway to success in important areas.
  - Strategic financial capacity and gaps should influence policy and decision-making
  - Be open to all opportunities and approaches to mitigate impacts
  - Engage the community and businesses as you see fit in laying out the challenges and looking for solutions
  - Demonstrate leadership by tackling these challenges in a thoughtful, transparent manner
  - Use these reports as tools to maintain communication with stakeholders so recommendations and impacts are not a surprise

***Please Note:*** *The Council that isn't looking at strategic solutions will eventually pay a heavy price for its short-term focus*

***Part 2 - Common financial management reporting challenges...and what you can do to address them, June 26, 2014 - this webinar focused on:***

**Financial management reports generated for staff and Council**

- *Financial Management Reporting Within the Finance Department*
  - Cash management
  - Accounts Payable, Accounts Receivable
  - Reserves and reserve fund management
  - Tax Related
  - Tax receipts
  - Past-due accounts, payment plans
  - Internal audit/internal control reporting

- *Financial Management Reports for Departments and Council*
  - Budgets / Budget Variance Reports
  - Operating and Capital budgets
  - Operating variance reports
  - Capital project status reports
  - Corporate Reports summarized for senior management and customized for Council
- *Financial Management Reporting*
  - We looked at different financial management reporting and the most effective one is the *non-financial data/standards incorporated into the reporting* as it allows calculation of simple efficiency measures
  - Affords different perspectives on financial information
  - Higher level comments integrate policy into the budget

**What types of non-financial data can be used to enhance your financial management reporting**

- *Develop and sustain a culture of accountability*
  - Your organization culture identifies what it takes to be accountable more so than policies or rules
  - Where there is a clear common understanding of what is to be done and how it should be done. When staff take responsibility and then follow through, you have a culture of accountability
  - In such a culture, financial management reporting is a very useful tool to assess performance and progress towards goals otherwise it is viewed simply as an administrative requirement and another activity that takes away from what is truly important
  - Are we (HCM) developing or sustaining a culture of accountability in our sphere of influence? I say YES we are.

**Improving the Value/Quality of Financial Management Reporting**

- Address problems with current practices
  - What causes data input errors?
  - Why is the financial system not current?
  - Are staff adequately trained to follow the right protocols?
  - Do staff understand why it is important to follow these protocols?
  - Do our policies and practices make sense?
- Match complexity/type of report to your audience
- Look at the structure and roll-ups for your data
  - Does it need modification to improve reporting quality
  - Is the right level of data being captured
- Use non-financial data to enhance your reporting
- Leverage data prepared to meet provincial legislated requirements

*Effective reporting requires an honest, open partnership between Finance and the other departments. It is not intended to be punitive and it should be used as a management and*

*decision-making tool. It is a very important mechanism for management and Council to set financial goals and assess performance against these goals as it will help to support a culture of financial accountability.*

*Corporate templates and reports are also important but it is worth the time and effort to address and support unique department needs. We must evolve to meet changing organizational needs.*

**Part 3 - Finding value in provincial reporting and assessing /improving your financial reporting effectiveness, July 10, 2014 - this webinar focused on:**

**Common provincial financial reporting requirements and timelines**

- *Relationship between Municipalities & the Province*
  - Municipalities are created by provincial legislation
  - Wide range of provincial legislation related to municipal oversight, funding, budgeting and financial reporting
  - Much of this is specific to a ministry, Ministry of Municipal Affairs and Housing (MMAH), regional municipal service offices (MSOs) support municipalities re: provincial regulations and legislation
  - Increased consultation with municipal sector before major policy changes
  - Provincial Transfer Payment Administrative Modernization (TPAM) project launched in 2013 to improve efficiencies and streamline future reporting requirements
- *Municipal Act, 2001 Part II - General Sections 3., 4, and 5: The Minister of Municipal Affairs and Housing (MMAH) may prescribe and regulate:*
  - the system of accounting; the forms, returns, statements to be submitted
  - the frequency and by whom this is to be submitted
  - the system of auditing; collect information, publish reports, provide advice
  - investigate municipalities
  - withhold grants if requirements are not met
- *Common Provincial Financial Reporting Requirements*
  - Budget Items Report - Ontario Regulation 284/9
  - Yearly / Multi-Year Budget
  - Public Sector Salary Disclosure reporting
  - Financial Information Returns (FIR)
  - Municipal Performance Measurement Program (MPMP)
  - Audited Financial Statements
  - Financial Statement related to Development Charges
  - Section 7 (4), (5) of the Building Code Act
  - Financial plan for drinking water system

**Mining data from these reports to support local decision-making in our municipality**

- *What must be focused On - FIR/MPMP Data*
  - FIR = Financial Information Return
  - Financials match audited financial statements



- 33 schedules including 6 for MPMP measures
- MPMP = Municipal Performance Management Program
- Currently 92 measures in 13 service areas
- *FIR has evolved over time:*
  - To better represent municipal services
  - Incorporate changes, e.g. Tangible Capital Asset Accounting
  - Integrate financial reporting and MPMP
- *FIR/MPMP - Challenges for Municipalities*
  - Despite detailed instruction, complicated to complete
  - Several municipalities continue to update following initial submission
  - A number of municipalities do not have in-house expertise to complete. Rely on external auditors.
  - Perceived as tool for the province but extra work for the municipality
  - Report hierarchy does not match municipal organizations or services
- *How FIR Information Is Used*
  - Provincial oversight of municipal finances
  - Prepare annual summary of 7+1 key financial indicators
  - Indicators provide snapshot of financial health
  - Compare to average for a comparator group
  - Develop annual repayment limit (ARL) schedule
  - Identifies limits a municipality can pay towards principal and interest payments on long-term debt
  - Requirement: grant funding and infrastructure financing
  - Allocation of grants
  - Influences provincial policy
- *Financial Indicator Review Understanding the Financial Indicators*
  - Focus on the risk assessment (high, moderate, low) not the computed values
  - Understand the underlying factors
  - Different indicators provide different insights
  - *These indicators:*
    - taken together provide an assessment of your municipality represent a snapshot in time
    - provide a perspective on your financial situation
    - viewed over time provide some indication of trends
    - are compared to data from a representative sample
  - This assessment goes hand-in-hand with financial statements and management reporting to Council
- *Finding Value In FIR Data*
  - Financial Tools
    - Indicators provides snapshot of financial health
    - Can shape/influence your financial policy
  - FIR data
    - Easy access to information about all municipalities

- Requires spreadsheet and analytical skills to manipulate
  - Ability to compare financial information across sample group of municipalities
  - Credible data to substantiate financial recommendations to Council
- *Finding Value In MPMP Measures*
  - They allow us to begin the dialogue about efficiency and effectiveness
  - Comparability can be from year to year or v/s other municipalities
  - Data might not be 100% but over time trends may be observed
  - Allocation of overhead costs is a proxy for full-cost accounting
  - The measures pose questions and push us to dig deeper into the data for answers
- *Accessing FIR/MPMP Data*
  - Ministry of Municipal Affairs and Housing web-site:
    - <http://csconramp.mah.gov.on.ca/fir/Welcome.htm>
  - FIR/MPMP schedules, ARL, financial statements
  - Easy to download by schedule, by municipality
  - Municipal Information and Data Analysis System (MIDAS)
  - Web-based tool hosted by AMO in partnership with MMAH:
    - <https://www.amo.on.ca/AMO-Content/MIDAS/MIDAS-Information.aspx>
  - Presently over 700 users, easy to use
  - Specific comparisons much easier
- *Financial/Performance Data*
  - Ontario Municipal Benchmarking Initiative (OMBI)
    - <http://www.ombi.ca>
  - Common framework for assessing municipal performance
  - 16 members, 37 service areas, 850+ measures
  - Has evolved and rigour has been adopted by municipalities
  - Relationship with MPMP measures

### **How to assess the present state of financial/management reporting in your municipality**

- *Strategic Financial Reporting*
  - Estimate and project out the scope of the long-term financial challenges facing your municipality?
  - Recommended a multi-year action plan to address these financial challenges your municipality faces?
  - Lays out a process for keeping Council engaged and informed of the status of the action plan and progress towards financial sustainability
- *Capability and Capacity*
  - Do you have adequate resources to do the job?
    - Within the organization
    - Funding to seek external expertise
  - Do you have the right skill sets in-house?



- Analytical, research, Excel skills
- Capability to guide/understand the work done by external consultants
- Do you have the data?
  - Is the data available to incorporate into your report?
  - Is your data updated in a timely manner?
  - Is it accurate? Can people trust it?
  - Unreliable data is a show-stopper!

### **Improving financial/management reporting:**

#### **Where to start?**

- *Prioritizing Your Needs*
  - List your reporting needs
  - Important to identify key reporting gaps/needs
  - Prioritize them
  - Use a scale to prioritize e.g. low/medium/high, score from 0-10
  - How will you meet these reporting needs?
  - Clear understanding of specific reporting need
  - Resources, knowledge/skills, data availability and quality
  - Rate your capability for each report on a scale of your choice
  - Plot each report (report type) on a two-dimensional chart
    - X axis = Priority
    - Y axis = Capability

#### **What to do?**

- *Financial/Management Reporting Planning for Success*
  - Focus on the priority needs
  - Balance among past (statutory), present (budget variance reports) and future (financial sustainability)
  - Put the right resources in place. identify resource gaps, recommend appropriate action
  - Leverage departmental expertise, create an environment where department staff can to address unique needs
  - Provide appropriate training and access
  - Address systemic problems and data problems
  - Integrate reporting to managers to reporting to senior management and Council

*Financial/Management reporting allows us to demonstrate good stewardship and financial accountability to our municipality, our Council and our residents. It requires skill sets that may not always have been important in municipal finance. It will be increasingly important to Council and ratepayers as longer-term financial pressures and challenges impact on tax rates and user rates. It should evolve to be more meaningful and relevant to the organization, Council and residents.*