

## AUMA Submission on the Financial Planning Regulation

### Overarching

There needs to be a mechanism to ensure the quality of the financial plans so that they are well considered, realizing that it would be overly burdensome for Municipal Affairs to review the plans. A suggestion is to use the financial plans as inputs to ICFs when considering future services and infrastructure that have benefits across municipal boundaries. This will improve transparency and financial planning in the broader process.

### Form of the Plans

#### **1. Should the regulation set out a form that municipalities must use in preparing their written plans?**

- Yes - the regulation should set out a standard format or form for the written plan. It should require use of the FIR templates for operating budgets, which would include information about debt and debt servicing limits and would create consistency and comparability among municipalities. Municipal Affairs could adapt the template for multi-year projections and municipalities could download that file and work from there.
- Capital plans should have more flexibility in the form and content, but a minimum should include having high level specific asset categories defined and summarized by year (e.g. roads, water, wastewater, fleet, etc.) along with funding sources summarized by type (define these categories in 1(i)). One option would be to provide a sample form to assist those municipalities that would like guidance without diminishing municipal autonomy or flexibility.
- There also needs to be clarity that capital is referring to hard capital, so that there is consistency in the plans.

### Contents of the Plans

#### **2. Should the regulation set out the minimum requirements for the content of written plans?**

- Yes - the regulation should set out the minimum requirement for the content of the written plans, with the option for municipalities to address additional items above the minimum requirements.
- This is important from a viability standpoint so that there is more clarity if a municipality is not viable. Areas that help to assess viability such as projected future property tax increases to support the plan and what borrowing capacity would need to be utilized to be viable should be required.

#### **3. If the regulation does set out the minimum requirement for the content of written plans, what information would you add or remove from Section 1 (Requirement to Prepare Financial Plans) or Section 2 (Requirement to Prepare Capital Plans) of the sample regulation?**

- Section 1: add human resource requirements (FTEs) over the period
- Section 2: add depreciation for utilities

#### **4. Are there any other matters that should be addressed in the regulation, or any other changes you would suggest to the sample regulation?**

- There are necessary linkages between financial plans, annual budgets, ICFs and viability review reports and recommendations. Therefore, this regulation should specify that financial plan data is consistent with ICFs and becomes an input to the annual budget and viability reviews where they occur, so that there is consistency and checks and balances in place.
- For the same reason as above, the financial plans should also include the current year operating and capital budgets. Having a five year financial/budget plan provides the public with a picture at one glance where a municipality is heading and provides more transparency.
- Guidance should be provided as to whether the financial plan/forecast needs to be reviewed by external auditors. Guidance should be provided as to what additional information, if any, is required beyond the forecasted dollar figures (e.g. assumptions used in the forecasts, basis for determining estimates for growth, inflation, etc. and the impact of changing accounting policies).

***Municipal Government Act***  
**Financial Planning Regulation**

**Discussion Guide**

**July 2016**

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## INTRODUCTION

The *Municipal Government Act (MGA)* is the law under which all Alberta municipalities are empowered to shape their communities. The *MGA* was introduced in the mid-1990s and was considered a model for municipal legislation in Canada. However, after nearly 20 years, it was determined the *MGA* should be revisited in order to meet the changing needs of Alberta's communities. An extensive review and public consultation took place throughout 2014.

Bill 20 was passed by the Legislature in the spring of 2015 to address several issues that received broad support from the rural and urban municipal associations, the cities of Calgary and Edmonton, and business and industry associations representing key economic sectors. These changes fall under four broad categories:

- Enhancing municipal accountability
- Enabling more efficient municipal operations
- Enhancing municipal viability
- Strengthening municipal and inter-municipal planning

Bill 20 also approved legislative amendments to address emerging issues, as well as housekeeping matters to update minor items such as definitions, references, and terminology.

## FINANCIAL PLANNING LEGISLATION AND REGULATION-MAKING AUTHORITY

The current *MGA* permits municipalities to determine their own financial management practices for long-term financial planning. Alberta municipalities must adopt an operating budget for each calendar year and the estimated revenues must be sufficient to pay the estimated expenditures. In addition, a capital budget must include the estimated amounts for capital property and the sources of funding for the calendar year.

Once proclaimed, Bill 20 will require municipalities to adopt a written three year financial plan and five year capital plan. The plans must be updated annually.

Bill 20 added the following to the *MGA*:

### ***Required plans***

**283.1(1)** *In this section,*

- (a) *“capital plan” means a plan referred to in subsection (3);*
- (b) *“financial plan” means a plan referred to in subsection (2).*

**(2)** *Each municipality must prepare a written plan respecting its anticipated financial operations over a period of at least the next 3 financial years.*

- (3) Each municipality must prepare a written plan respecting its anticipated capital property additions over a period of at least the next 5 financial years.*
- (4) The 3 financial years referred to in subsection (2) and the 5 financial years referred to in subsection (3) do not include the financial year in which the financial plan or capital plan is prepared.*
- (5) Council may elect to include more than 3 financial years in a financial plan or more than 5 financial years in a capital plan.*
- (6) Council must annually review and update its financial plan and capital plan.*
- (7) The Minister may make regulations respecting financial plans and capital plans, including, without limitation, regulations*
- (a) respecting the form and contents of financial plans and capital plans;*
  - (b) specifying the first financial year required to be reflected in a financial plan;*
  - (c) specifying the first financial year required to be reflected in a capital plan.*

These changes are not yet in effect, but will come into effect when proclaimed later in 2016 or 2017.

## **PURPOSE OF THIS DISCUSSION PAPER**

This discussion paper has been developed to seek your input into the development of the regulations for financial and capital plans. Your comments and observations will be important in ensuring that the new legislation and regulations accomplish their intended objectives.

## **MUNICIPAL FINANCIAL AND CAPITAL PLANS**

Long term financial planning combines financial forecasting with priority setting. Financial planning can provide insight into future financial capacity so that strategies are developed to achieve sustainability.

### **Financial Planning Process**

Multi-year plans or budgets enable local governments to better link strategic goals with financial planning processes that are tied to the annual budget cycle. The development of longer-term financial plans also means that municipal staff can spend less time on annual budget development tasks and more time on service delivery, program evaluation and innovation.

There are a wide variety of approaches to financial planning in Alberta. Many larger municipalities have adopted multi-year operating and/or capital budgets in recent years. The City of Lethbridge received a Minister's Award of Excellence for the establishment

of the three-year budget that aligned city council's strategic plan, service area business plans and council's term of office.

Under the Municipal Sustainability Initiative capital guidelines municipalities must declare that a Multi-Year Capital Plan (MYCP) has been prepared that includes the project for which MSI funding is being applied. The objective of the MYCP is to provide a high level overview of anticipated municipal capital expenditures for all grant supported and non-grant supported capital projects over a minimum three-year planning period to assist in prioritizing capital projects, develop financial strategies, and to ensure that critical long-term community needs are considered. The plan should be in the most practical format available to the municipality, and updated periodically.

### **Asset Management**

Asset management processes allow municipalities to manage infrastructure in a planned and integrated manner to maximize value to the community.

The National Roundtable on Sustainable Infrastructure defines asset management as "an integrated business approach involving planning, finance, engineering and operations to effectively manage existing and new infrastructure to maximize benefits, reduce risk and provide satisfactory levels of service to community users in a socially, environmentally and economically sustainable manner."

Effective asset management ultimately leads to better decision-making about spending priorities and long-term capital planning. Asset management is an ongoing process and it provides answers to key questions:

- Service: What level of service needs to be provided?
- Risk: What are the risks to delivering that level of service?
- Financial Sustainability: How much will it cost and is it affordable?

The development and implementation of asset management policies, strategies and plans directly support the identification of capital project additions as set out in the new requirements, and could be viewed as necessary prerequisites to making informed decisions about what is to be included in the financial plan and the capital plan.

### **MATTERS TO CONSIDER IN THE DEVELOPMENT OF A MUNICIPAL FINANCIAL PLANNING REGULATION**

There is a perception that some municipalities could better utilize both their financial and their physical assets with more rigorous legislative requirements around financial planning.

The current legislation requires adoption of municipal operating and capital budgets for each calendar year. Many Alberta municipalities also do effective financial planning

while others may lack the capacity or expertise to undertake a detailed long-term planning effort.

The purpose of the new legislation is to ensure that municipalities are subject to a more rigorous legislative requirement around financial and capital planning, while providing flexibility and support to municipalities with capacity issues.

New MGA Section 283.1(7) provides the Minister with the authority to make regulations respecting the form and contents of financial plans and capital plans, and transitional provisions specifying the first financial year to be reflected in the plans.

To the extent that the form and content are set out in regulation, the regulation will set a standard requirement that all municipalities must adhere to. This has the benefit of setting a consistent standard of practice across Alberta. However, individual municipalities might benefit from taking a more tailored local approach that complies with the new MGA requirement in the absence of standardized regulated requirements. A balanced approach might be to establish basic minimum standards for the content of plans in the regulation and allow municipalities to tailor their policies to meet or exceed this benchmark.

The following sample regulation is based on a balanced approach that sets a minimum standard for the content of plans and allows individual municipalities substantial discretion in determining how the MGA requirements can be satisfied. The format of municipal planning documents varies widely based on local processes and needs. The sample regulation does not propose to regulate the form or format of the written plans. However, the department proposes to prepare a sample format that a municipality could use at its discretion.

The implementation date for the first written plans to be prepared is addressed in section 3 of the sample regulation. It provides that the first written plans must be prepared for the period commencing at the beginning of the second year after the year Section 283.1 of the *Act* is proclaimed. For example, if Section 283.1 is proclaimed in early 2017, the first written plan respecting anticipated financial operations would be for the period January 1, 2019 to December 31, 2021, and the first written plan respecting anticipated capital property additions would be for the period January 1, 2019 to December 31, 2023. This would allow at least one year to prepare the plans.

### **Sample Regulation**

The following sample regulation is intended to provide context and facilitate discussion about what the final regulation should contain. It is not intended to represent a recommended approach.

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**ALBERTA REGULATION ###/2016**

***Municipal Government Act***

**Municipal Financial Planning Form and Content Regulation**

**Requirement to prepare financial plans**

- 1 Pursuant to the requirements in section 283.1(2), the financial plan must itemize the following forecasted amounts over the period of the plan:
  - i. total revenues and expenses by major category;
  - ii. annual surplus or deficit; and
  - iii. the accumulated surplus or deficit.

**Requirement to prepare capital plans**

- 2 Pursuant to the requirements in section 283.1(3), the capital plan must itemize the following forecasted amounts over the period of the plan:
  - i. planned capital property additions;
  - ii. allocated or anticipated funding sources.

**Implementation Date**

- 3 For purposes of preparing the first written plan respecting anticipated financial operations pursuant to the requirements in section 283.1(2) and the first written plan respecting anticipated capital property additions, the written plans must be prepared for the period commencing at the beginning of the second year after the year Section 283.1 of the *Act* is proclaimed.

**QUESTIONS ABOUT THE MUNICIPAL FINANCIAL PLANNING FORM AND CONTENT REGULATION**

We would appreciate your responses to the following questions about the Municipal Financial Planning Form and Content Regulation.

**Form of the Plans**

The regulation could set out a standard format or form for the written plans. Alternatively, the decision of what matters are to be addressed in the code of conduct could be left entirely to the municipality.

1. **Should the regulation set out a form that municipalities must use in preparing their written plans?**      **Yes**                      **No**



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### Contents of the Plans

The regulation could set out the minimum requirement for the content of the written plans, leaving the municipality with the option of addressing additional items above the minimum requirement at its discretion. Alternatively, the decision of the content of the plans could be left entirely to the municipality.

2. **Should the regulation set out the minimum requirements for the content of written plans?**    Yes                      No
  
3. **If the regulation does set out the minimum requirement for the content of written plans, what information would you add or remove from Section 1 (Requirement to Prepare Financial Plans) or Section 2 (Requirement to Prepare Capital Plans) of the sample regulation?**

### Other

4. **Are there any other matters that should be addressed in the regulation, or any other changes you would suggest to the sample regulation?**

### NEXT STEPS

After Municipal Affairs has concluded engagement on this regulation, feedback will be assessed and taken into consideration when developing the final recommendations to government.

Thank you for providing your comments. Your feedback is very important and will be essential to improving municipal governance, administration and accountability.