# Financial Reporting Policy

## 1.0 Policy Statement and Purpose

A policy governing the financial reporting requirements and objectives. This policy establishes the objectives for reporting financial data to ensure timely, accurate and transparent information to Council.

## 2.0 Scope

Financial reporting is a key element of the Municipality's long-term financial strategy. This is demonstrated by the following financial principle for the reporting to Council:

1. Ensure data is timely, compliant, accurate, transparent and pertinent for decision making.

As a result, this Policy's philosophy is to promote fiscal prudence and the provision of important data for Council decisions, particularly as identified in the above financial principle as well as to achieve a best practice for reporting among municipal governments.

## 3.0 Objectives of Financial Reporting

The primary objectives for financial reporting shall be in priority order:

- Compliance with regulatory requirements;
- Measuring performance to Council Strategic Objectives; and
- Providing Council with timely, accurate and pertinent financial data;

### A) Compliance with Regulatory Requirements

It shall be the Municipality's practice to follow all required Public Sector Accounting Board (PSAB) reporting requirements and Municipal Act sections related to financial reporting.

- All financial transactions will be recorded in compliance with the Public Sector Accounting Handbook
- An independent auditor is appointed every 5 years and completes an annual audit of our financial statements and transactions and this gets reported to the Audit Policy Committee and Council
- The Provincial Financial Information Return (FIR) gets completed in accurate and complete form and submitted to the Province each year prior to September 30.

### B) Measuring Performance to Council's Strategic Objectives

Beginning in 2015, Council, administration and numerous community groups have all taken part in shaping CKPlan 2035 and establishing the strategic goals of the community for the next 20 years. The Municipality will tailor their work efforts to meet these goals.


*The Community Strategic Plan identifies the most important priorities for the community and outlines the objectives and actions necessary to reach the goals.*

Where the community strategic plan leaves off, is where the business planning begins at the business unit level. This, in turn, drives the budget process and provides critical insight and information into how achievable the recommended objectives are, what resources are required to act on them and how they will be accomplished. The seamless integration of business unit business plans provides a tangible way of effectively implementing the community strategic plan.

Providing Council with reporting that measures performance to the strategic goals is important to ensure that the municipal spending of efforts are focused on the directions Council has provided.

A Business Plan will be completed by each division within the Municipality in each term of Council outlining its intentions to align with Council's Strategic Objectives for that term of Council. These objectives should be closely tied to the CKPlan 2035 objectives with key performance indicators for completing annual checks on performance.

**C) Providing Council with Timely, Accurate and Pertinent Financial Data**

The Chief Financial Officer will be responsible for the following reports:

## Annual Audited Financial Statements

The Municipality is required by the Municipal Act to engage independent auditors to express an opinion as to whether the Municipality's financial statements present fairly in all material aspects of the Municipality's operating results and financial position. The statements shall include a statement of financial position, financial activities and changes in fund balances with notes on obligatory reserve funds and summarized reserve and reserve funds information contained in the note on accumulated surplus. The auditors have full and free access to all Municipal records and they meet periodically with staff to discuss matters arising from the audit or from new policies and procedures. The auditors also provide the Municipality annually with a management letter on the adequacy of internal controls.

It is important to note that while the Municipality engages an independent auditor to express an opinion on the financial statements, the Municipality's management is responsible for the preparation of the financial statements and integrity and objectivity of the financial information and representations contained in the financial statements.

## Financial Information Return (FIR)

The FIR is the main data collection tool used by the Ministry of Municipal Affairs to collect financial and statistical information on Municipalities. The FIR is a standard document comprised of a number of Schedules which are updated each year to comply with current legislation and reporting requirements. Administration completes the FIR, the auditors review the document and it gets forwarded to the Province prior to September 30 each year.

## Annual Budget

Each year, Council considers a draft operating budget and a lifecycle infrastructure and capital budget and adopts the operating budget and lifecycle and capital budget for the immediate year. The budget process involves elected officials, department heads, staff and the public. The key steps in the process include: Council sets overall budget guidelines taking into account the prevailing economic conditions, provincial policy changes and servicing needs. Staff make recommendations to revise expense levels or increase revenues to meet Council's targets for the tax levy. Prior to Council's final deliberations on the budget, public input is compiled through on-line and community consultation open houses and is utilized in the decision making process. It should be noted that under provincial legislation, sufficient revenues must be raised to meet all budgeted expenses.

Municipalities may not specifically budget for surpluses or deficits and any that would occur must be fully accounted for in the next year's budget. In response to Council's strategic objectives and increased requirements for lifecycle infrastructure funding, the Municipality has adopted a divisional business plan. The long-term plan is to have a business plan for each term of Council and work in conjunction with the annual budget process. After the budget is adopted by Council, expenses are controlled against budget by variance reporting, purchasing and human resource policies and financial systems designed specifically to prevent budget overruns.

The quarterly variances consist of a first quarter informal departmental review, with only high level issues communicated to Council due to the subjectivity of estimates after only one quarter of the year, with formal reviews and communicated reports to Council for each following quarter.

The third quarter report actually picks up October data as well, so that the most up to date information can be reviewed with Council prior to the following year's budget. The final variance report will be reported to Council along with the audited financial statements, along with recommendations for any allocation of surplus or requirements from a deficit.

**Business Plans**

As part of the process for the second budget of each term of Council, a Business Plan will be completed by each division within the Municipality. This will be the objectives for the division to align with Council's Strategic Objectives for that term of Council, these objectives should be closely tied to the CKPlan 2035 objectives. The Business Plan will then be aligned with the annual budgets going forward. The rationale for the completion for the second budget of a term, is that Council will require time after the beginning of the term to establish or modify their Strategic Objectives for that term of Council and administration will want to establish their business plans to align with Council's Strategic Objectives.

The Business Plan will be completed once for each term of Council.

**Credit Rating**

In 2013 Standard and Poors Credit Rating Agency performed a credit rating for the Municipality. The Municipality achieved an A+ credit rating for the first time in the Municipality's history.

Annual credit ratings are not required, however consideration should be given to the timing of credit ratings. They may coincide with debt issuance or consideration of being done every 5 years. The decision may be contingent upon what type of debt is being issued. If the Municipality is borrowing from Infrastructure Ontario, there may be no requirement for a new credit rating and rates are generally fixed for all municipalities

The reason to consider coinciding with a debt issuance is above all, credit ratings affect the cost of borrowing when issuing debentures. The better the credit rating, the lower the interest rate that will have to be paid by the issuer to attract buyers.

Another consideration of periodic credit rating reviews is for the independent valuation of the Municipality's financial performance and status. This allows the Municipality to provide these results to the community and to interested business in assisting in economic development efforts in a transparent method.

Consideration should be given to the cost and administrative burden compared to the benefits achieved associated with the credit rating.

**Asset Management Plan**

In June of 2011, the Province came out with the *Building Together – Guide for Municipal Asset Management Plans*. There was a requirement to complete an asset management plan for 2013 for roads, bridges, water, wastewater and social housing.

A long-term, cooperative effort among all three orders of government will be required to address the challenges of current and emerging municipal infrastructure needs. The strategy will be guided by the following principles:

- Municipalities are the stewards of the infrastructure they own. The province and the federal government have an obligation to help municipalities address infrastructure challenges.
- Comprehensive asset management plans should guide investment decisions.
- Those who benefit directly from municipal infrastructure should pay for the service, whenever feasible.
- Opportunities should be pursued to provide infrastructure more efficiently by forging partnerships with other communities or consolidating services where possible.
- Maintaining roads, bridges, water, wastewater and social housing should be a top priority.
- Some communities face unique challenges that require tailored solutions.
- Infrastructure Ontario and the private sector can help address municipal infrastructure challenges.

**In conjunction with the 2014-15 budget, the Province released the *Infrastructure for Jobs and Prosperity Act,* guiding the Province's 12-year, $160-billion Infrastructure Plan. The principles behind the Act are as follows:**

- Refining infrastructure programs to respond to the needs of municipalities and local communities.
- Leading the development of new regulations under the *Infrastructure for Jobs and Prosperity Act* to set out the requirements for long-term infrastructure planning for the broader public sector by spring 2017.
- Developing reporting standards that will better track infrastructure investments across government and improve public transparency by introducing a web-based reporting on the progress of infrastructure projects.
- Consulting with municipal partners on asset management plans and develop regulations to promote standardization and consistency by January 2017.

As part of the Province's mandate, municipalities were to complete an asset management plan for all asset groups by the end of 2016. (Since modified to significant progress by end of 2016).

At this point in time it is unknown of future requirements of updating the Asset Management Plan for municipalities, but every 5 years the Municipality should undertake an update of the requirements, levels of service and funding plan as part of an asset management plan.

This would provide an update to Council to assist in making informed decisions on lifecycle replacement and renewal and support the critical infrastructure in a municipality.

**Tax Policy**

Annual tax policy works in combination with the budget process to establish the tax dollars raised in the community for operating costs, ensuring appropriate levels of services for the community, economic development opportunities and providing for infrastructure renewal and expansion.

Each year administration analyzes the current assessment roll, the legislated changes from the Ministry of Finance, the education rates provided by the Province and the economic climate of the Municipality.

Ensuring that all current legislation is being followed and taking advantage of all financial advantages that can be achieved through tax policy is the most important component of the annual tax policy. Having all tax ratios within the legislated thresholds established by the Province should also be a target. This allows municipalities to increase each tax class by the approved Council budget increase each year.

Determining the appropriate tax ratio for the various classes, allows Council to shift the taxes from one class to another, with a view to promote a variety of objectives for the community. Setting of the tax ratios each year allows the Municipality to be competitive with other municipalities and possibly gain a competitive advantage for potential economic development.

Many surrounding municipalities have made tax policy decisions to lower their industrial and commercial ratios to promote economic opportunities. Council has made strategic decisions to reduce the industrial tax ratio over the period of 2008 - 2016 and should continue this reduction when circumstances are available to limit the impact on residential taxes. Once industrial and commercial are in sync, analysis should occur on determining whether to lower the ratios closer to the residential rate. Comparison to surrounding municipalities will play a key component in that analysis.

Ensuring that the maximum legislated increases are added to capped properties, should also be a goal of tax policy as it helps to provide those properties the quickest time frame to reach their appropriate taxable amount based upon their assessment and allows the Municipality to eliminate the claw backs of other property taxes within that class, to ensure that all properties that have a reduced assessment also reach their appropriate taxable amount as soon as possible.

Every effort should be made to be able to leave the capping program as quickly as possible, generally new legislation from the Province in 2017 moves in that direction, the Municipality should accept those changes and exit from the capping program as quickly as possible so that all properties are receiving the appropriate amount of tax based upon their assessment.

**Audit Policy Committee**

A number of the reports will initially flow through the Audit Policy Committee. This includes the Annual audited financial statements and the Financial Information Return (FIR).

The Chief Financial Officer will also report to the Audit Policy Committee any instances of fraud or any financial irregularity.

## 4. Responsibilities

The Chief Financial Officer has overall responsibility for financial reporting.

Notwithstanding; responsibilities will be carried out by reporting Directors as follows:

*Director, Financial Services and/or designate:*

- Coordination of the completion of annual financial statements and coordination of the external audit of the statements
- Compliance reporting of various mandatory Ministry financial requirements
- Completion of the Financial Information Return (FIR) with submission to the Province of Ontario

- Work with Fiscal Agencies on credit ratings (when beneficial) and corresponding debt issuance
- Working in conjunction with the Municipal Departments, updating an Asset Management Plan
- Completion of annual Tax Policy analysis and recommendation to Council

*Director, Budget and Performance Services and/or designate:*

- Coordination and reporting of the Business Plans, ensuring consistency with the annual budget and the strategic objectives of Council.
- Coordination of the annual budget process

## 5. Glossary of Terms

**Credit Rating Agency:** A **credit rating agency** (**CRA**, also called a **ratings service**) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments and in some cases, of the servicers of the underlying debt, but not of individual consumers.

The debt instruments rated by CRAs include municipal bonds.

The issuers of the obligations may be local governments. It affects the interest rate that a security pays out, with higher ratings leading to lower interest rates.

**FIR:** Financial Information Return, the Provincial worksheet completed by municipalities annually to provide the Province with financial performance and status of municipalities.

**Municipality:** Refers to the Municipality of Chatham-Kent, its Boards and Subsidiaries.

**PSAB:** Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.