

MGA Review Discussion Paper

Financial Administration

This technical document is part of a series of draft discussion papers created by Municipal Affairs staff and stakeholders to prepare for the Municipal Government Act Review. It does not reflect existing or potential Government of Alberta policy directions. This document is the result of a careful review of what is currently included in the Municipal Government Act (MGA) and regulations, definitions of terms and processes, changes requested by stakeholders over the last 18 years, some highlights from other jurisdictions, and identification of potential topics for discussion during the MGA Review. This information will be used to prepare consultation materials as the MGA Review proceeds.

These discussion papers have been reviewed and approved by the MGA Stakeholder Advisory Committee, comprised of representatives from major stakeholder organizations: Alberta Association of Municipal and Counties, Alberta Association of Urban Municipalities, Alberta Rural Municipal Administrators Association, Alberta Chambers of Commerce, City of Calgary, City of Edmonton, and Local Government Association of Alberta.

The Government of Alberta is asking all Albertans to directly contribute to the MGA Review during online consultation in late 2013 and consultation sessions throughout Alberta in early 2014. This technical document is not intended for gathering stakeholder feedback, but to generate thought and discussion to prepare for the upcoming consultation. Public engagement materials will be available in early 2014. To learn more about how you can join the discussion on how we can build better communities, please visit mqareview.alberta.ca/get-involved.

Preamble

The *Municipal Government Act (MGA)* provides the legislative framework to guide the operations of municipalities in Alberta. The current *MGA* empowers municipalities with the authority and flexibility to provide services in the best interests of the community. The *MGA* Review will proceed along three major themes: *governance*; *assessment and taxation*; and *planning and development*.

This paper is one of 12 discussion papers exploring aspects related to the *governance* theme. It focuses on the municipal finance provisions in the *MGA*. The objective of each discussion paper is to

- 1) Outline the existing legislation,
- 2) Identify issues with specific aspects based on stakeholder requests
- 3) Look at how other jurisdictions are approaching these issues; and
- 4) Pose questions to help formulate future analysis of, as well as public and stakeholder engagement on the *MGA*.

Below is a list of the papers that relate to the *governance* theme.

- Municipal Powers
- Provincial Powers
- Municipal Structures
- Municipal Governance
- Municipal Administration
- Financial Administration
- Liability and Risk Management
- Service Provisions
- Controlled Corporations
- Regional Service Commissions
- Compliance and Accountability
- Special Areas and Improvement Districts

Municipal Finance

The *MGA* outlines measures to facilitate responsible financial management in municipalities. The current *MGA* creates a framework for financial management that requires municipalities to create a budget and to engage with the public on financial matters. The *MGA* also enables municipalities to borrow funds and creates parameters for financial decisions to be made in an accountable manner. For the purposes of this paper, municipal finance has been divided into the themes of *financial administration* and *financial accountability*.

Financial Administration

The budgeting process is, in many ways, a municipality's biggest policy decision as it affects all aspects of its operations. The *MGA* directs municipalities to create operating and capital budgets, and includes the following parameters in support of responsible financial decisions:

- Debt Limits – The province has power to limit, through regulation, the amount of debt a municipality may carry. Municipal debt limits, with some exceptions, are currently set at 1.5 times their previous year's revenue. Ministerial permission may be given to exceed the limit, for example, Edmonton and Calgary's debt limits are currently set at 2 times their previous year's revenue.
- Borrowing – Prior to borrowing any funds, municipalities are required to create and (in most cases) advertise a borrowing bylaw that outlines the borrowing amount, the repayment terms (including the maximum interest rate), the duration of the loan, and to whom the payments are made. All borrowed funds must be used for the intents identified in the borrowing bylaw.
- Loans and Guarantees – Municipalities may only loan money to, or guarantee the repayment of a loan for non-profit organizations or one of its controlled corporations. In some situations a municipality may also loan money to designated seller of gas.
- Investing – The *MGA* allows a municipality to invest its money in securities issued or guaranteed by the Crown, a bank, and securities of other public bodies. Municipalities may also, with ministerial approval, invest in shares of a corporation.
- General Financial Matters – General finance provisions under the *MGA* include: setting the municipality's financial year, placing limits on expenses related to councillor's duties, and identifying which positions have authority to open (or close) a municipal bank account.

Financial Accountability

The *MGA* provides for a level of oversight by both the province and the public through the following mechanisms:

- Financial Reporting – Each municipality must appoint at least one auditor for the municipality, and each of its controlled corporations for which there is no statutory requirement of an audit. Municipalities must submit annually to the province, and make available to the public in a manner that council considers appropriate: financial statements; financial information returns; and auditors' reports in accordance with the municipal government accounting principles developed by the Canadian Institute of Chartered Accountants. All financial reporting is for information purposes and does not require provincial approval, but may result in provincial action if legislated requirements are not met.
- Public Involvement – Public accountability is facilitated by bylaw and advertising requirements, mandatory reporting, and the ability of citizens to petition the municipality on borrowing decisions.

DRAFT

Discussion Points



Below are some identified discussion topics and questions based on a review of requested amendments, cross jurisdictional research and issues raised by stakeholders.

The requested amendments discussed below draw upon an inventory of requests received by the Province over the past 18 years. It is important to note these requests:

- i) do not include all the requests Municipal Affairs has received in the past 18 years;
- ii) do not necessarily represent the views of most Albertans;
- iii) do not necessarily apply to all municipalities; and
- iv) are categorized by policy topic, and have not been evaluated or ranked by number of requests received.

1. Limits on Financial Decisions

Background

The existing financial framework under the *MGA* enables municipalities to administer their finances within defined parameters (e.g., debt limits, investment opportunities). These parameters are intended to minimize financial risk and promote good financial management.

Cross-jurisdictional Research

- Municipalities in Nova Scotia and cities in Saskatchewan have no legislated restrictions on municipal investments. They invest according to municipal policies and bylaws.
- In the Northwest Territories and Nunavut, municipalities may only invest surplus funds.
- Saskatchewan's Municipal Board establishes a debt limit for each city based on its economic and assessment base, available grant funding, the debt servicing impact on the local authority and its revenue demands.
- In Nova Scotia, a municipality's debt limit is set annually and only granted if capital budgets are submitted to the Minister.

Stakeholder and Legislative Amendment Requests

- Some municipalities have asked Municipal Affairs to amend the *MGA* to allow the transfer of surplus borrowed funds among different capital projects, as opposed to repaying loans early (which often has large financial penalties). The municipalities assert this will reduce costs associated with borrowing.
- Municipal Affairs has received requests from citizens to amend the *MGA* so that all long-term payment obligations (e.g., contractual agreements that include long-term payment plans) are considered debts and would therefore impact municipal debt limits.

2. Financial Accountability and Reporting

Background

Approving the annual budget, and the other financial choices a council makes, are among the most important decisions of a municipality and therefore require a high level of accountability. The *MGA* ensures the public is informed and involved in financial decisions through:

- the advertising of those financial decisions that require a bylaw; and
- providing the public an opportunity to petition council on borrowing decisions.

The *MGA* further facilitates financial accountability by requiring certain financial reports to meet standards set by the Canadian Institute of Chartered Accountants and to be submitted to council, the province and the public. While these financial reports contain information that help assess a municipality's financial management, the reports' format and data may be difficult for some councillors or the public to interpret, thus minimizing their ability to engage or respond to the contents of the reports.

Cross-jurisdictional Research

- Manitoba requires public consultation to take place during the municipal budgetary process.
- Municipal budgets require provincial approval in New Brunswick.
- Municipalities in British Columbia are required by legislation to have a balanced budget with respect to basic operating expenditures. Debt can only be used to fund capital projects, such as buildings, road constructions, water, sewer and drainage works.
- In New Zealand, municipalities must prepare a financial strategy that includes:
 - criteria for evaluating funding and expenditure proposals; and
 - consultation on the implications of funding and expenditure proposals for a local authority's services, rates, debt, and investments.

Stakeholder and Legislative Amendment Requests

- Municipal Affairs has received requests from citizens to:
 - allow petitions on all municipal financial decisions rather than limiting the petitioning process to borrowing decisions;
 - adjust the submission timelines for petitions on municipal borrowings to mirror the timelines set out in the *MGA* for petitioning on all other matters; and
 - require municipal financial information be posted to websites.

Discussion Questions



1. *What basic standards, if any, should the province be set regarding Municipal Finance (e.g. mandatory reporting, Provincial fiscal year vs. calendar year)?*
 - a) *What legislative parameters, if any, are required to enable municipalities to adequately budget for both short and long term obligations?*
 - b) *What are the benefits and drawbacks of a municipality's fiscal year end being tied to the calendar year versus the Provincial fiscal year?*
 - c) *What limits, if any, should be applied to municipal borrowing and investments and on what basis should these limits be set? (e.g. tying debt limit approvals to municipal budget submissions or considering available grant funding).*
2. *What provisions, if any, should be considered to increase municipal financial accountability (e.g. requirements to post municipal financial information on a website)?*
3. *What petitioning provisions, if any, should be required to ensure public accountability through the petitioning process (e.g. timelines, processes, petitionable items)?*
 - a) *What types of input and control should residents have over a municipality's financial decisions? For example:*
 - i. *How should municipalities consult with the public as part of the budgetary process?*
 - ii. *What municipal financial decisions should be subject to a petition?*