FINANCIAL PLANNING & ACCOUNTING

SECTION 7

Financial Plan (Budget)

Municipalities and regional districts must annually adopt, by bylaw, a five-year financial plan, which includes capital and operating items.

For municipalities, the financial plan must be adopted before the annual property tax bylaw is adopted (adoption of the property tax bylaw by May 15 is required) [CC s. 165; CC s. 197]). For regional districts, the financial plan must be adopted by March 31 [LGA s. 374]. In both cases, the financial plan may be amended by bylaw at any time.

Before adopting a financial plan, the council or board must have undertaken a process of public consultation regarding the proposed plan [CC s. 166; LGA s. 375].

For each of the five years in the financial plan, the plan must show:

- the proposed expenditures, including separate amounts for each of: interest and principal on debt, amounts required for capital purposes, the amount required for a deficiency, and the amount required for other purposes; and
- the proposed funding sources, including separate amounts for each of: revenue from property value taxes, parcel taxes, fees, and other sources, and proceeds from borrowing (other than revenue anticipation borrowing); and
- the proposed transfers between funds, including separate amounts for each reserve fund and accumulated surplus.

Regional district financial plans are based on individual services (i.e., the proposed expenditures, funding sources, and transfers noted above must be shown separately for each service).

Municipal financial plans must also describe the objectives and policies of the municipality for the planning period in relation to: the proportion of total revenue that is proposed to come from each funding source (e.g., property value taxes, parcel taxes, etc); the distribution of property value taxes among the property classes that will be subject to the tax; and the use of permissive tax exemptions.

No Deficit

Proposed expenditures and transfers to other funds for a year cannot exceed the total of the proposed funding sources and transfers from other funds. In other words, the financial plan cannot show a deficit in any year.

If actual expenditures and transfers to other funds exceed the actual revenues and transfers from other funds (in other words, if there is a deficit), the deficiency must be included in the next year's financial plan as an expenditure.

Emergencies

Councils and boards may establish procedures to authorize and report on emergency expenditures. Once these procedures are in place, the municipality or regional district may make an emergency expenditure not contemplated in its financial plan. If emergency expenditures are required, the financial plan must be amended as soon as practicable after the expenditure has been made [CC s. 173; LGA s. 401].

Limits on Expenditures

The financial plan is the primary authority for the municipality or regional district to spend. The local government must not make an expenditure other than one authorized for that year in its financial plan or an emergency, as noted above [CC s. 173; LGA s. 401].

Disqualification and Liability

Council or board members who vote for bylaws or resolutions that authorize the expenditure, investment or other use of money contrary to the provisions of the CC or LGA may be exposed to personal liability and to disqualification from office [CC s. 191; LGA s. 373].

Financial Statements and Audit

The financial officer must prepare financial statements, which must be presented to the council or board for acceptance [CC s. 167; LGA s. 373]. The council or board must appoint an auditor [CC s.169; LGA s.377], who must report on the financial statements [CC s. 171; LGA s. 377].

Financial statements must be prepared in accordance with generally accepted accounting principles for local governments. These principles are established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

Separate Funds and Consolidation

“Funds” are a way of segregating financial and accounting transactions. Separate funds tend to be used in order to keep track of how money from certain sources is used or to provide information about the cost of a particular service or activity and how those costs are recovered. A separate fund does not necessarily mean that money relating to the fund must be held in a separate bank account, although in some cases segregation in banking is either required or desired in order to simplify calculations such as interest earned on the funds.

Reserve Funds [CC s. 188; LGA s. 377], may be set up, by bylaw, to hold money for certain future purposes. The bylaw establishing the reserve fund will set out the purpose, which may be either operating or capital. Establishment of reserve funds is generally a local choice, although there are some circumstances where a separate reserve fund is required (for example, money received from the imposition of development cost charges or from certain property dispositions).

Trust Funds are set up for the purpose of accounting for money and/or property received and held by the local government as trustee, custodian or agent. A trust fund is usually in existence over a long period of time. Separate accounts should be maintained for the transactions in each trust fund.

Reserve Accounts. Certain contractual arrangements may require that separate funds be established. For example, a grant program may require a separate accounting for grant funds. In addition, some local governments may choose to provide an internal accounting framework which further segregates portions of accumulated surplus into separate funds according to local requirements and preferences (for example, many local governments provide for separate operating and capital funds or will have separate funds for certain services, such as water or sewer).

The accounting treatment providing segregation into such funds is for internal management purposes, and the financial and accounting reports produced may look very different from the audited financial statements. This is because the audited financial statements are presented on a consolidated basis, as required by the Public Sector Accounting Board (PSAB). Consolidation is essentially a method of adding together the various funds and reporting on them on an aggregated basis. The PSAB requirement provides for consolidation of most accounting transactions, although there are some exceptions to this general rule.

Updated November 2018