Municipal Public Accounts: Discussion Paper

Ministry of Government Relations

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Saskatchewan

Introduction

In Saskatchewan, the provincial government, cities and school boards are legislatively required to prepare and publish public accounts. Saskatchewan cities have been required to prepare and publish public accounts since the 1980s. Municipalities, under *The Municipalities Act* and *The Northern Municipalities Act, 2010*, are not currently required to produce public accounts. However, they must submit audited annual financial statements, which are publicly accessible documents. Public accounts offer more detailed financial information than financial statements. Generally, financial statements only provide the total amounts paid in each category.

What are Public Accounts?
Public accounts for Saskatchewan cities are currently comprised of financial statements, plus detailed reporting for expenditures above a defined threshold in the required categories: remuneration paid to council members and employees, and payments to individual recipients for goods, services, contracts or grants.

In 2020, amendments to municipal legislation added regulatory authority to establish public accounts for all municipalities. This section of the legislation has not yet been proclaimed. When the legislative amendments come into force, all municipalities will be required to prepare public accounts annually and make them available to the public. Regulations will set out the specific requirements and the thresholds of each requirement over which details need to be reported.

How are Public Accounts different from Financial Statements?
A key feature of public accounts is that the audience is the general public. Public accounts should be easy to access, in a consistent format, and it should be easy to find and compare specific types of information. While municipalities are already required to make financial statements available for public inspection, those statements are not always easy for the general public to understand. Public accounts may also include information that may not typically appear in financial statements, information that is presented in a different way, or non-financial information.

Guiding Principles
The following principles have been used as guidelines in preparing this document:

1. **Transparency:** Encourage proactive disclosure of information to the public;
2. **Accountability:** Information is publicly available to show how tax dollars are spent on particular goods, services or public works;
3. **Convenient and prompt public access:** No application or processing fees are in effect and information can be accessed quickly;
4. **Consistent standards:** On par with the federal and provincial governments and other public entities who prepare public accounts, and consistent across all types of Saskatchewan municipalities;
5. **Administrative feasibility:** The requirements and thresholds should not create a significant administrative burden for municipalities.

Preparation & Publication Times

Option 1: Publish Public Accounts by September 1
All municipalities are required to publish their annual financial statements by September 1st. However, municipalities are currently required to prepare their annual financial statements by June 15th.

Cities currently publish their public accounts at the same time as their financial statements, which is by September 1st. This option would apply the current cities deadline to all public accounts. Advantages include being consistent with current practice, and it would offer municipalities time to prepare the accounts after preparing their annual financial statements.

Option 2: Publish Accounts at the End of the Following Fiscal Year
With this option, municipalities would have 12 months to report their past year's public accounts, so the publication of the public accounts would be in December 31st of the following fiscal year. This option would offer more time than is currently provided to cities. However, accountability is diminished as the publication delay increases and it takes longer for the public to access the information.

Reporting Requirements

Today, cities provide detailed reporting on these categories:

- Remuneration and expenses of each member of council for the city, committees, other bodies established or funded by council, and controlled corporations (reported in full);
- Remuneration of each employee;
- Contract expenditures on goods and services;
- Grants and contributions.

All municipalities will need to report on these same categories. Additional reporting requirements are also being considered for all municipalities (including cities), as outlined below:

1. Add Full Reporting of Administrator Remuneration
The administrator is a statutory position and required for every municipality (or a clerk for cities). Since some administrators may work a small number of hours for one or more municipalities, their remuneration may be underreported because they make less than the threshold in each municipality. Therefore, the administrator's remuneration could be reported with no thresholds to improve transparency.

2. Road Maintenance Agreements
Road maintenance agreements (RMAs) are a stream of revenue for many rural municipalities. The revenue collected from the agreements is considered a fee for maintaining the roads, meaning it should relate to the costs of road maintenance. Industry stakeholders have asked for greater municipal transparency concerning revenue from RMAs.

This option proposes that for any regulated RMA or other negotiated road haul agreement, a municipality could report the following information in its public accounts:

- List of RMAs or other negotiated road haul agreements that were in effect for the fiscal year, including information on:
  - Number of kilometers for each road under an agreement;
  - Tonnage hauled and frequency of hauls under each agreement;
  - The industry sector under agreement (e.g. mining, forestry, oil and gas, agriculture);
  - Revenue amounts from each agreement;
  - Additional maintenance expenditures related to each road under an agreement;
  - Additional amortization expenses related to each road under an agreement.

3. Industry Fees and Charges
Municipalities have the ability to create fees and charges for services to citizens and businesses. In financial statements, some municipalities report fees and charges in aggregate without offering further details. Courts have upheld the principle that fees and charges must reflect the cost of administration and enforcement. Industry has asked for greater transparency with respect to municipal fees and charges. This option suggests that municipalities could be required to report the following details for fees and charges:

- Subcategories under the fees and charges category (e.g. environment and public health service);
- Items under sub-categories of fees and charges category (e.g. it should offer what the environment and public health subcategory entails);
- Revenue from each fee or charge;
- Expenditures related to administrating and enforcing the services for the fee/charge collected.

The above detailed reporting would advance financial accountability and transparency of local governments, as the public and industry would have a better understanding of why they were charged a specific fee.

4. Detailed Reporting on Property Tax

Property tax is a key source of revenue for municipalities. Municipalities already report revenues from property tax in their financial statements. However, these statements only show an aggregate without offering any further details. Under this option, municipalities would include detailed reporting on property tax in public accounts, consistent with more detailed financial reporting for property tax as seen in most other provinces. Detailed reporting on property tax could include information that is already reported by other means (such as the mill rate survey), but would make it more easily accessible by the public and provide for the municipality to communicate its property tax policies.

Reporting could include:

- Tax assessment
- Total property tax levy
- Agriculture property tax levy
- Residential property tax levy
- Commercial/industrial property class levy
- Total taxable assessment
- Residential taxable assessment
- Commercial/industrial taxable assessment
- Agricultural taxable assessment
- Uniform mill rate
- Base tax levy
- Minimum tax levy
- Mill rate factors
- Average mill rate ratio
- Special levies
- Property tax abatements and exemptions

5. Detailed Reporting of Municipal Debt

Municipal debt is another measure of financial health. The reported items under this option could include:

- Municipal debt per capita
- Debt limit ratio
- Debt/revenue percentage

6. Detailed Reporting of Municipal Bylaws and Permits

This option expands municipal accountability and transparency, because bylaws and permits offer a window into how a municipality conducts its business. Clear reporting on municipal permits and bylaws, particularly those related to fees and charges, may increase public trust, as it shows when and how the municipality makes decisions on certain actions.

The following items are examples of what could be reported under this option:

- Municipal bylaws (e.g. starting with those linked to fees and charges, specific policies like land development);
- Special notices (e.g. boundary changes) reviewed by council;
- Number of development permit applications received and issued;
- Number of building permits issued;
- Number of land use bylaw amendment applications;
- Number of development appeals heard.

7. Servicing Agreements and Money in Lieu of Municipal Reserve

The Planning and Development Act, 2007 permits municipalities to sign servicing agreements with subdivision developers, so that municipalities receive payments from developers for conducting off-site developments in the immediate or late future. The Act also requires the developers to dedicate land to municipalities as a municipal reserve (e.g. park space and schools) during the subdivision process. Alternatively, the developers can make a payment to the municipality in lieu of providing land.

Developers have requested more transparency about these funds, as municipalities do not report on how they spend these payments or their allocation. Therefore, the public accounts could include:

- List of agreements signed in the fiscal year;
- The amount of money received from each agreement;
- A breakdown of the allocation of collected payment from the agreements;
- The timeline for delivering the agreed upon developments outlined within a servicing agreement or development levy agreement;
- Revenue and expenditures for the dedicated lands account.

8. Financial Analysis Ratios

Financial ratios could allow the public to better understand financial health in their municipalities. Example of financial ratios to report could include:

- Current ratio: measures a municipality’s liquidity. It shows how much in assets the municipality has available now to pay liabilities due in next year;
- Own-source revenue ratio: measures the degree to which a municipality is dependent on revenues they have less control over, such as intergovernmental transfers, compared to revenues generated from its own sources;
- Operating ratio: measures a municipality’s budgetary solvency. It demonstrates if the municipality has sufficient sources of revenue to pay for its planned expenditures.

Reporting Thresholds

The reporting thresholds in public accounts determine how much a municipality must report in each category, except for categories such as remuneration that must be reported in full. As a result, thresholds ensure transparency and accountability, while maintaining administrative feasibility for municipalities.

Option 1: Apply Existing City Thresholds to all Municipalities

- No thresholds for remuneration and expenses of each member of council for the city, committees, other bodies established or funded by council, and controlled corporations (e.g. all expenses in these categories are reported);
- Remuneration of each employee over $50,000;
- Contract expenditures on goods and services over $50,000;
- Grants and contributions over $50,000.

Under this option, all municipalities in Saskatchewan would have uniform thresholds for public accounts requirements, creating a horizontal equality among municipalities. However, applying these thresholds to smaller municipalities may mean very little detail is actually reported to the public.

Option 2: Revenue Based Thresholds

Municipalities are accountable for the money they have as stewards of public funds. Therefore, using total revenue as the basis for determining thresholds would also ensure thresholds are adapted to the great variance in levels of revenues and expenditures.

A five-year average of total revenue could be used to set thresholds to account for the annual variation in municipal revenue. In addition, thresholds could be automatically adjusted regularly (i.e. every five years) for inflation. Thresholds would be capped at a maximum amount so that all cities and many larger municipalities would share the same thresholds, regardless of revenue.
Two options would be considered for revenue-based thresholds:

- **Option 2A: Revenue – Bracketed Thresholds**
  Municipalities would be divided into different categories – small, medium, and large – based on their total revenue, and each category would have its own threshold.

  With this option, municipalities would generally have the same thresholds every year, so it is administratively simpler than using percentages, as in option 2B. Using brackets would also be easier for the public to understand.

  Nevertheless, this option might be considered administratively onerous for municipalities in the high end of each bracket, as the thresholds might be low relative to their expenditures. At the same time, municipalities in the lower end of each bracket may be under-reporting, negatively impacting financial transparency and accountability.

- **Option 2B: Percentage of Revenue Thresholds**

Thresholds would be set at one per cent of a municipality's total revenue, effectively creating a threshold specific to each municipality, with maximum thresholds of $50,000.
With this option, municipalities would report their expenditures based on their unique thresholds, holding all municipalities to a consistent level of transparency and accountability that is directly connected to revenues.

However, each municipality would have to calculate its thresholds each year, making this option more complicated to administer. It also might be difficult for the public to understand the unique thresholds and why they are different for every municipality. In addition, some municipalities would have higher reporting thresholds for expenditures compared to the other options, leading to under-reporting in those municipalities.

Option 3: Population-Based Thresholds
In this option, municipalities would be divided into different brackets – small, medium, and large – based on population, and each category has its own thresholds, with large municipalities having a threshold of $50,000.

Municipalities would have fairly stable thresholds over time, as population in municipalities typically changes at a slow rate.
However, population levels of municipalities do not always reflect their financial situations, capacity and expenditure levels. While total revenues correlate with population levels for many municipalities, that is often not the case for rural municipalities, which account for over a third of Saskatchewan municipalities.

Comparison of Thresholds
Table 1 shows the numbers used for creating the brackets in options 2A and 3, and are based on preliminary analysis. These should be considered examples, as further work on the options could mean a change in the bracket sizes.

Table 2 compares threshold options 2 and 3. The table includes various sizes of villages, towns, and rural municipalities as examples. Note that under these options, thresholds for cities would not typically change, since they would fall into the large or maximum threshold brackets.

Table 1: Threshold Brackets

	Revenue Brackets	Population Brackets
Small	$0 – $0.99M	<400
Medium	$1M-$4.99M	401-1,525
Large	$5M-over	>1,525

Table 2: Revenue-based versus Population-based Thresholds

Example Municipality	Revenues / Population	Option 2 – Revenue Based Thresholds				Option 3 – Population Based Thresholds	
		Option 2 A Bracketed Thresholds		Option 2 B 1% of Revenue			
Village	$560,000 SMALL	Grants	$200	Grants	$5,600	Grants	$200
		Contract expenditures	$1,000	Contract expenditures		Contract expenditures	$1,000
	Pop 130 SMALL	Employee Remuneration	$2,000	Employee Remuneration		Employee Remuneration	$2,000
Smaller RM	$1,300,000 MEDIUM	Grants	$2,000	Grants	$13,000	Grants	$2,000
		Contract expenditures	$10,000	Contract expenditures		Contract expenditures	$10,000
	Pop 470 MEDIUM	Employee Remuneration	$20,000	Employee Remuneration		Employee Remuneration	$20,000
Town	$6,500,000 LARGE	Grants	$50,000	Grants	$50,000	Grants	$50,000
		Contract expenditures		Contract expenditures		Contract expenditures	
	Pop 2,700 LARGE	Employee Remuneration		Employee Remuneration		Employee Remuneration	
Larger RM	$14,500,000 LARGE	Grants	$50,000	Grants	$50,000	Grants	$2,000
		Contract expenditures		Contract expenditures		Contract expenditures	$10,000
	Pop 750 MEDIUM	Employee Remuneration		Employee Remuneration		Employee Remuneration	$20,000
Smaller City	$11,100,000 LARGE	Grants	$50,000	Grants	$50,000	Grants	$50,000
		Contract expenditures		Contract expenditures		Contract expenditures	
	Pop 5,350 LARGE	Employee Remuneration		Employee Remuneration		Employee Remuneration	