



Village of Lytton

Agenda

Special Council Meeting

Council Chamber, 380 Main Street, Lytton, BC

at 4:00pm, Monday, February 15, 2016

1) **CALL TO ORDER** – Mayor Lightfoot at ____ am

2) **ADOPTION OF AGENDA**

Moved, Seconded by Councillors _____ that the agenda be adopted as presented or as amended.

3) **ADMINISTRATIVE MATTERS**

- a. **Year End Financial Plan Schedules** – Ken Bjorgaard and Navdeep Dhaliwal
- b. **Update on Village's Finances** – Ken Bjorgaard and Navdeep Dhaliwal

Moved, Seconded by Councillors _____ that the Financial Management Consultant's reports be adopted as presented.

4) **ADJOURNMENT**

Moved by Councillor _____ that the meeting adjourn at ____ pm



VILLAGE OF LYTTON REPORT TO COUNCIL

TO: COUNCIL **DATE:** February 15, 2016

FROM: KEN BJORGAARD, MBA, CGA-CPA,
LOCAL GOVERNMENT CONSULTANT

SUBJECT: YEAR-END AND FINANCIAL PLAN SCHEDULES

PURPOSE: To update Council on the timelines for completing the 2015 year-end/financial statements and the 2016 – 2020 financial plan

ATTACHMENTS: Appendix A - 2015 Financial Statements/Year-End Schedule
Appendix B – 2016 – 2020 Financial Plan Schedule

Recommended Resolution: No Council resolutions are recommended or required at this time.

Background

The statutory deadline for submitting the Village's 2015 audited financial statements and its 2016-2020 financial plan and tax rates bylaws to the Ministry of Community, Sport and Cultural Development is May 15, 2016. To ensure that this deadline can be achieved year-end and financial planning schedules with key milestone tasks and dates have been drawn up (see Appendices A & B).

Comments

The dates shown in the attached schedules are target dates and may be updated or changed depending on actual findings and progress. Council's comments on these schedules are welcomed. In terms of the financial planning process, we intend to compile a base 2016 core budget that maintains existing 2015 service levels and programs for Council's consideration, and to also compile a discretionary spending list (non-core operating and capital initiatives) with associated funding options and recommendations. Council can then decide whether they would like to include any of the discretionary items in budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ken Bjorgaard".

Ken Bjorgaard, MBA, CPA-CGA

Appendix A - 2015 Financial Statements/Year-End Schedule

Key Task or Event	2016 Target Date	Responsible Person(s)	Notes
Open up 2016 year in financial system and perform roll over procedure for all systems including sub-ledgers, so that posting can occur in 2015 and 2016	Opening of 2016 System – January 4 Rollover procedures - February 19	Nav Dhaliwal	<i>80% complete</i>
Record all missing 2015 transactions and accruals, balance sub-ledgers and general ledgers, and clean-up errors & stale dated accounts/balances	February 19	Nav Dhaliwal & finance team	<i>90% complete</i>
Prepare audit working papers/lead sheets including compiling or obtaining support for all key balances	February 19	Nav Dhaliwal & finance team	
Prepare draft financial statements and schedules	February 29	Ken Bjorgaard & Nav Dhaliwal	
Review of draft financial statements/schedules and complete final edits	March 4	Ken Bjorgaard	<i>Draft statements to be forward to auditors prior to scheduled audit</i>
Audit of draft financial statements	March 14 - 18	MNP Auditors and Nav Dhaliwal	<i>Nav to be available to address any audit questions</i>
Present draft audited financial statements to Council for their approval	April 4	Nav Dhaliwal, Ken Bjorgaard, CAO & Council	<i>Requirement of audit process</i>
Send financial statements to Ministry and complete Ministry on-line financial and statistical reporting (LDGE forms)	April 11	CAO and Ken Bjorgaard	

Appendix B - 2016 – 2020 Financial Plan/Budget Schedule

Key Task or Event	2016 Target Date	Responsible Person(s)	Notes
Gather 2016 – 2020 financial plan/budget background information and data	February 12	Ken Bjorgaard, Nav Dhaliwal & CAO	
Compile draft core 2016 – 2020 financial operating plans/budgets	February 19	Ken Bjorgaard	
Prepare preliminary list of discretionary spending items (non-core capital and operational spending initiatives) which will include any budget resources needed to achieve Council's goals and objectives	February 26	CAO & Ken Bjorgaard	
Prepare draft 2016 financial planning binders for distribution to Council including reserve & debt projections, etc.	February 29	Village staff & CAO	
Presentation and discussion of core draft 2016 – 2020 financial plan and preliminary discretionary spending items with Council	March 1 - 14	Council, CAO & Ken Bjorgaard	<i>2 or 3 meeting may be required. Public question periods can be held at the end of each meeting</i>
Prepare formal public consultation package based on provisional 2016 – 2020 financial plan approved by Council	March 21	Ken Bjorgaard & CAO	<i>Public consultation is a requirement of the Community Charter</i>
Hold formal public budget consultation meeting	April 4	Council, CAO & Ken Bjorgaard	<i>Material to be available to the public 10 days prior to the meeting</i>
Review final budget with Council and including draft financial plan and tax rates bylaws	April 11	Council, CAO & Ken Bjorgaard	
First three readings of financial plan and tax rates bylaws	April 25	Council & CAO	
Adoption of financial plan and tax rates bylaws	April 29	Council & CAO	



VILLAGE OF LYTTON

TO: COUNCIL **DATE:** February 15, 2016

FROM: KEN BJORGAARD, MBA, CPA-CGA
LOCAL GOVERNMENT CONSULTANT

SUBJECT: UPDATE ON VILLAGE'S FINANCES

PURPOSE: The purpose of this report is to provide Mayor and Council with an initial overview of the Consultant's findings in regards to the Village's financial systems and processes and to outline some best financial practices.

<p>Recommended Resolution: No Council resolutions are recommended or required at this time.</p>
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BACKGROUND:

The Local Government Consultant (Consultant) was engaged by the Village of Lytton (Village) to assist with the Village's finances including instituting financial best practices and completing the 2015 year-end financial statements and the 2016 - 2020 financial plan. In the course of this engagement the Consultant, together with his sub-contractor, has had the opportunity to undertake an initial review of some of the Village's financial/accounting systems and processes. This review was based on a comparison of financial practices and systems currently in place at the Village with best business and financial practices in place in a number of other local government organizations.

DISCUSSION:

The results of this review have been broken down into several key areas, which follow, to increase the readability and understanding of the issues.

General Accounting & Financial Reporting Practices

Overview

General accounting and financial reporting needs to be accurate, efficient and kept up to date if local government is going to be effective, and have the confidence of Council, staff and the public. Inefficient and ineffective accounting and financial processes and systems end up wasting time and resources that could otherwise be spent in creating value for the community. For example, if financial reporting becomes out of date or behind inordinate amounts of time are often expended in correcting the historical issues or problems that could have otherwise been avoided. General accounting practices also need to take into account certain internal controls to safeguard assets and to ensure the accuracy of financial information.

Findings/Comments

The following accounting and financial reporting issues were noted and serve as an opportunity for change and improvement:

- **Penalties on Taxes** – the Village never charged the 10% penalty for late property tax payments in 2015, as per legislation, and as a result the Village has lost tax revenue estimated at \$2,200.
- **2015 Tax Rates Bylaw** – as has been noted by the Ministry of Community, Sport and Culture the Village's tax rate ratios for the Regional District and Regional Hospital District levies do not conform to the prescribed provincial multiples. This will have to be corrected for 2016.
- **Property Taxes** – it has been identified that property taxes have been charged on two properties that should be exempt, as these properties were not listed on the annual permissive tax exemption bylaw adopted by Council. As a result, property taxes have continued to be charged on these properties, but not collected, therefore current and arrears taxes in the amount of \$8,500 will be written off in the 2015 year-end. These properties will be added to the 2016 permissive tax exemption bylaw. Additionally, a property tax bill was issued to Thompson-Nicola Regional District (TNRD) in 2015 for the Lytton Library in the amount of \$5,389 even though this property is exempt. TNRD paid the invoice in 2015; as a result, a refund of \$5,389 will be issued.
- **Vacation and Sick hours** – a review of the payroll records and a discussion with staff has indicated that the banked sick hours and vacations hours recorded within the payroll accounting program are incorrect. We are currently in the process of identifying the impact of this error. Going forward, all sick time and holiday time will be accounted for correctly within the accounting program and in accordance with the collective agreement and employee contracts.
- **Bank Reconciliations** – these were not completed since October of 2014. Preparation of bank reconciliations is a valuable control in ensuring that there are no errors in the transactions posted to the accounting system and in the bank account. Additionally, bank reconciliations are an effective measure in the deterrence and identification of potential

misappropriation of funds provided there is the appropriate segregation of duties. Bank reconciliations have been caught up to date. Bank reconciliations will be prepared in a timely manner going forward.

- Pension – two employees were not treated correctly in terms of pension contributions and deductions. This issue has now been rectified; however, it did consume significant resource time to correct the situation.
- Historical Accounts – a review of the accounting system chart of the accounts identified numerous outdated and stale dated accounts and balances that required investigation and writing off as there was limited support for these balances. The chart of accounts is in the process of being reviewed and streamlined to ensure that all accounts are up-to-date and that appropriate accounts are used for posting to avoid similar issues in the future. Many of the accounts were also classified incorrectly, e.g. balance sheet assets and liabilities were classified and treated as revenues or expenses or vice versa.
- Balancing of Sub-Ledgers with Ledger – many of the sub-ledgers, e.g. detailed property tax listing, accounts payable listing, etc., did not balance with the summary and corresponding general ledger accounts. This appears to be an historical situation. All sub-ledgers should be reconciled and balanced to the corresponding ledger accounts on a monthly basis. This will occur going forward.
- GST and PST – the Village has been recording GST on its purchases, however, no GST claims have been made in 2015. In the future GST filings be prepared in a timely manner to improve cash flow management, as well PST will be avoided where applicable.
- Payments in Lieu of Tax (PILTs) – these payments collected on behalf of various authorities have not been remitted since 2013. We have now submitted all relevant PILTs to the various authorities; however, these remittances should continue to be completed on a regular basis by the specified due dates to avoid unnecessary penalties or fees in the future.
- Property Tax Sales – have not been appropriately recorded in the general ledger and this has resulted in an overstatement of revenues and accounts receivables in 2015. It is estimated that the overstatement is approximately \$16,500. This overstatement will be corrected for the 2015 year-end and a process will be put in place to avoid such errors in the future.
- Limited Staff Knowledge of Accounting Programs – due to turnover of finance staff and limited documentation of financial processes current staff have limited knowledge of the accounting software. Limited knowledge has resulted in incomplete accounting records and untimely payment and collection of payables and receivables. Staff need to be provided with in depth training of Muni-ware, as soon as possible, so that they can become more efficient and effective in their jobs.
- Limited Documentation of Processes and Procedures – this has resulted in improper posting of transactions and untimely preparation of reports and transactions related to school taxes, payments in lieu of taxes, and other revenues and expense streams. All of the important accounting processes and procedures, report submissions, and year-end closing procedures required in the year will be documented to ensure others can follow procedures and keep reporting up to date.

- **No Segregation of Duties** – this is common in most organizations with limited finance staff. Currently finance staff have the ability to post both accounts payable and receivable transactions, access bank accounts, and process payroll. The Village should consider a division of duties, where possible, as well as certain required approvals to ensure oversight and to mitigate risk.
- **Agreements and Contracts** – it was noted that several agreements/contracts have expired and have not been renewed. A diary and tracking system will be set up to track key agreements and contracts, including important renewal dates, actions required and the person responsible for administering the particular contract or agreement. This same tracking system can be set up for any approved grant programs.
- **Records Management** – many of the Village's records have not been filed electronically and the hard copies are difficult to locate as a standardized filing system has not been used. A records management system needs to be developed, documented and implemented so that all of the Village's records are filed in a logical and consistent manner, and thus are easier to retrieve or access. All staff including any new personnel also need to be trained up on this system. Easy access to information saves time and dollars.
- **Previous Audits Costs** – the Village's 2014 audit costs were \$27,000. This significant cost was the result of incomplete records which required additional work by the auditors. It is anticipated that improvements in general reporting and accounting practices will lower future audit costs, which should be in the \$10,000 to \$15,000 range annually.

Long –Term Financial Planning/Budgeting

Overview

A local government's ability to manage and control its budget, including the ability to minimize and phase in any necessary tax/rate increases, is directly related to the strength of its long-term financial planning and budgeting processes. Under the Community Charter a 5-year planning horizon is required for both operating and capital expenditures and related funding sources.

Financial plans should include solid multi-year operating and capital budgets. Many local governments plan beyond the required 5-year time horizon, especially for capital projects, often planning 10 or 15 years out. When budgeting and approving capital expenditures it is important to consider and budget for any associated operating impacts that will result if specific capital spending does receive approval. Approving capital projects without also approving and budgeting for the associated operating impacts can lead to tax/rate spikes and/or structural operating deficits.

The budgeting/financial planning process should follow from Council's strategic plan and related goals and objectives. The financial plan needs to provide the resources and finances to ensure that Council's community and organizational goals and objectives are achieved. It is also often more efficient if Council provides general direction in terms of specific spending and/or tax increase target levels at the onset of the budgeting process or if Council requests different budget scenarios with different tax impacts and associated spending levels. The

budgeting/financial planning process should also provide a process for Council to approve any new spending and/or increased service levels.

Findings/Comments

- Council's goals and objectives, which are currently being defined, should be integrated into the budgeting or planning process, in that the necessary resources need to be set aside in the Village's 5-year plan to accomplish Council's priorities.
- Long-term capital infrastructure plans have not yet been developed for the Village to ascertain how much money needs to be set aside for infrastructure replacement. This is not unique to Lytton as many communities have not yet developed asset management plans, which serve as the basis for long-term capital planning.
- Detailed multi-year operating and capital budgeting processes and plans need to be developed. The Village's 5-year plans or budgets should be representative of the best information possible and serve as a key decision making tool. To make wise choices in the present one needs to have a clear view of the future. The 2016 financial planning/budget process will work towards this goal.

Surpluses and Reserves

Overview

Under the Community Charter reserve funds can be set up for specific purposes and must be established by bylaw. The reserve fund bylaws specify which funds will be credited to a specific reserve and what each reserve fund can be used for. Interest earned on the reserve balances need to be credited to each reserve. Surplus funds from the various operational areas (general, sewer, water, etc.) are created when revenues exceed expenditures in a particular year. Surplus funds are generally used for emergency expenditures and/or as source of working capital/financing to fund operational expenditures before taxes or user rates are collected. It is important to become familiar with the following terminology and distinctions when discussing reserves and surpluses so that everyone has a common understanding:

- "Accumulated Surplus" represents the accumulated excess of revenues over expenditures from the current year and prior years. Generally Accumulated Surplus is comprised of three amounts: Cash or Unrestricted Accumulated Surplus, Reserve Funds (not including those Reserves classified as Restricted Revenue) and an organization's equity investment (means net of any debt) in Tangible Capital Assets. Unrestricted Accumulated Surplus is normally segregated and accumulated under the various operating funds, e.g. general, water and sewer.

- “Annual Surplus” or “Annual Deficit” - in the case of Annual Surplus this means the accumulated excess of revenues over expenditures for the current year and in the case of Annual Deficit this means an excess of expenditures over revenues for the current year. Annual Surpluses increase the amount of Accumulated Surplus and Annual Deficits decrease the amount of Accumulated Surplus.
- “Appropriated Accumulated Surplus” means funds set aside from Unrestricted Accumulated Surplus for designated, future expenditures.
- “Cash or Unrestricted Accumulated Surplus versus Non-Cash or Restricted Accumulated Surplus - Cash or Unrestricted Accumulated Surplus represents real money that an organization can spend, whereas Non-Cash or Restricted Accumulated Surplus represents funds that have already been spent on Tangible Capital Assets. Usually Cash or Unrestricted Accumulated Surplus is used for working capital and emergency expenditure purposes.
- “Reserve Funds” or “Reserves” are funds that are set aside for a specified purpose by Council bylaw pursuant to subsection 188 of the Community Charter. There are Non-Statutory (discretionary) Reserve Funds that can be established pursuant to subsection 188 (1) of the Community Charter, where Council has the choice of whether or not it wants establish a Reserve for a specified purpose, and then there are Statutory (non-discretionary) Reserve Funds that need to be established pursuant to subsection 188 (2) of the Community Charter or pursuant to other legislation, e.g. Parkland Acquisition Reserve Fund, Land Sale Reserve Fund, Development Cost Charges Reserve Fund, etc. It is financially prudent to set money aside for future one-time capital and/or operating expenditures in Non-Statutory Reserve Funds.
- “Restricted Revenue” means revenues or receipts which are restricted by legislation, or that contain stipulations that create a liability, and which are deferred. Restricted Revenue is recognized as revenue in the period which the qualifying expenses are incurred and/or the stipulations are met. Certain Statutory Reserve Funds, e.g. Parkland Acquisition Reserve Funds and Development Cost Charges Reserve Funds, are classified as Restricted Revenues for financial accounting and reporting purposes.

Having long-term projections for all reserves and surpluses is essential for financial planning and budgeting purposes. Also having a policy in place that specifies minimum and optimal levels for all reserves and surpluses is advantageous, as optimum reserve/surplus levels serve as an internal financing source for capital projects and in turn minimize external borrowing costs while at the same time providing for internal borrowing opportunities. Many municipalities borrow internally from their own reserves for specific projects as internal borrowing is more flexible than external borrowing in terms of payback period, interest rate,

etc. However, when internal borrowing is undertaken there needs to be a disciplined repayment plan in place.

Findings/Comments

- The Village does not presently have short or long-term projections in place for its various reserves/surpluses. This makes it very difficult to estimate whether there will be sufficient reserves/surplus levels in place to fund capital expenditures and other emergent issues.
- The Village's two reserve funds (listed as Capital Works and General) do not have current establishing bylaws in place that specify what monies will be directed to these reserves and what the funds can be used for. Up-to-date establishing bylaws for these funds should be adopted if these reserves are to continue.
- The Village has a number of reserve accounts listed in their financial statements for the following purposes: Downtown Revitalization, Economic Development, Fire hall, Raft Take Out and Search and Rescue. Council motions or other documentation that specifies what these funds can be specifically used for cannot be found. The Village should consider creating reserve fund bylaws so that the use or intent of these funds is clear and transparent.

Monitoring Budgetary Spending/Revenues and Financial Reporting

Overview

Departments should be responsible for closely tracking and monitoring budgetary spending and revenues to ensure that planned financial results are achieved. If budgetary targets are difficult to achieve because of unforeseen or unusual events this needs to be communicated to Council as soon as possible. Operational changes may need to be made to compensate for unforeseen expenditures or unrealized revenues.

Managing capital projects through formal project plan, which includes assigning a specific staff project manager who is accountable for project deliverables and finances, is essential for controlling and managing higher risk capital projects. In the case of capital spending, specific changes in project scope may be required to ensure that capital projects remain on track.

To ensure that annual budgetary spending (for both operating and capital) remains on track it is advisable to have a formal quarterly reporting system to Council. This can take place in the form of quarterly budget variance reports that are presented on public council agendas. This gives Council some comfort that their goals and objectives including their budgetary targets are actually being achieved.

Findings/Comments

- The Village's approved budget numbers in its financial plan bylaw are not reflected correctly in the District's financial system which makes it very difficult for managers to track and control spending levels and related budgets.
- The Village's detailed 2015 financial plan for the water utility reflected a transfer of \$22,100 from surplus to fund water operations. The water utility is in a deficit position and does not currently have any surplus funds to subsidize water operations.
- The Village should consider instituting a formal system for reporting budget versus actual results to Council on a quarterly basis.

Water and Sewer Utilities and Related Rates

Overview

Part of prudent financial planning is the creation of longer term financial models, which in part includes the aforementioned reserve/surplus projections, to determine and stabilize future utility rates (water, sewer, garbage, etc.) These models should be constantly updated and reviewed as conditions and assumptions change so that gradual utility rate increases can be implemented as opposed to spiked rate increases in any given year.

Findings/Comments

- The Village should consider the development of utility models for projecting future utility rates. Estimating the future replacement cost of existing utility infrastructure is part of the models, as is future planned capital additions, which are both important for obtaining reliable results and for estimating and establishing future rate increases. The Village should work towards obtaining this important data.
- The Village's Water Utility is currently in a deficit position and has no surplus funds to pay for emergency infrastructure repairs and for cash flow purposes. The Water Utility is currently borrowing from other funds. The Village should work towards making its Water Utility a self-sustaining entity.
- We understand that the Village's Water Treatment Capital Project is currently in a state of "limbo" and in need of analysis to determine an appropriate future direction. The Village should consider creating a project plan to see this important project through to completion.

Cash-Flow Forecasting and Investments

Overview

Having a system in place for projecting a local government's cash needs on a monthly and yearly basis is beneficial for minimizing borrowing costs and maximizing interest revenue. A cash-flow forecast helps to determine the best way of funding operations and capital. This forecast also determines the optimum investment strategy for surplus and reserve funds, whether that be through the bank or through appropriate short, medium and/or long term investment vehicles. To ensure that funds are invested appropriately and within the guidelines of the Community Charter and Council many municipalities have adopted an investment policy.

Findings/Comments

- The Village should implement a formal cash-flow projection/tracking system to ensure operational and capital financing is always available, and to in turn maximize investment earnings.

CONCLUSION:

This report serves as an interim and initial update on the Village's finances. The Village now has the opportunity to move forward and implement modernized systems and processes to improve financial efficiency and accountability, and to provide for the long-term financial health of the community. Other financial reports will be coming forward to Council for their consideration to implement many of the changes noted in this report.

Respectfully submitted,



Ken Bjorgaard, MBA, CPA-CGA
Local Government Consultant

