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Item 12.2.1
Audit & Finance Standing
Committee September 21, 2022

TO: Chair and Members of Audit & Finance Standing Committee

-Original Signed-

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

DATE: June 28, 2022

SUBJECT: Financial Condition Index Report 2020 - Halifax Regional Municipality

INFORMATION REPORT

ORIGIN

Department of Municipal Affairs produces Financial Condition Index (FCI) reports for Nova Scotia Municipalities. This report summarizes the HRM FCI report and addresses highlighted issues.

Concern over the fiscal health of Nova Scotia Municipalities, leading to greater emphasis of monitoring by Department of Municipal Affairs.

All figures referenced are from the 2020/21 budget.

LEGISLATIVE AUTHORITY

The Audit and Finance Standing Committee shall:

(f) Review, as required, any other policies, procedures, forecasts, reports or process as agreed to mutually by the CAO and the Committee.

BACKGROUND

The Financial Condition Index began in 2002 as a joint project between the Province, the Nova Scotia Federation of Municipalities (NSFM), and the Association of Municipal Administrators, Nova Scotia (AMANS). The key priority was development of a monitoring system that evaluated fiscal health of municipalities. These indicators included measures of net financial position (balance sheet approach), annual cash flow, reserve balances, debt costs and budget accuracy.

DISCUSSION

Nova Scotia municipalities submit financial information returns (FIR) along with audited financial statements to the Province of NS. FIR is the main tool used by Department of Municipal Affairs to collect statistical and financial information. Much of the FCI data is derived from the FIR report.

The FCI framework does not give a comprehensive evaluation of a municipality’s economic and financial health. Rather, it is a tool to understand the short-term risks (if any) associated with its financial framework/fundamentals. More rigorous analysis would be completed if HRM issued its own debentures or participated in primary or secondary bond markets. Comparing HRM’s net financial position to smaller municipalities is less revealing than evaluating HRM’s indicators over time, or against larger regional comparators within North America.

Since 2012, HRM’s indicators have indicated a healthy fiscal position, characterized by relatively strong economic fundamentals and sound fiscal management. Demographic trends in HRM have strengthened noticeably. Overall, HRM scores low risk (green) on 11 of 13 indicators, indicating its sound fiscal policy, strong liquidity, and a comparatively broad tax base. HRM scores well on tax effort, debt servicing levels, liquidity, and budget accuracy. These scores are in line with what finance staff would expect given HRM’s financial policy framework in place since amalgamation.

HRM has two moderate risk scores:

- 1) *Undepreciated Assets* which estimates that the Municipality’s capital assets have over 47 per cent of their useful life remaining. This may indicate growing deferred maintenance on existing assets; something HRM is actively addressing through increasing capital budget capacity¹. For these reasons staff view this risk as manageable in the medium-term.

- 2) *Operating Reserve* (At 19.9 % HRM is considered medium risk). Low risk is above 20 per cent. Measures the level of operating reserve resources relative to total expenditures. Given recent changes to HRM Reserve Policy and business cases, staff view operating reserve balances as appropriate given current operating commitments.

Figure 1- Summary of FCI Indicators

Indicator	Risk (Low, Medium, High)
Deficits in the Last 5 Years	Low
Liquidity	Low
Reliance on Government Transfers	Low
Combined Reserve	Low
Uncollected Taxes	Low
5 Year Budget Accuracy	Low
Operating Reserves	Medium
Debt Service	Low
Outstanding Operating Debt	Low
Undepreciated Assets	Medium
Reliance on a Single Business/Institution	Low
Three-Year Change in Tax Base	Low
Residential Tax Effort	Low

¹ Capacity means both increased financial and internal [staff] resources to complete projects. Overall binding constraint is growth in construction market labour supply.

Overall, HRM's financial management practices are comparatively sound. A more exhaustive analysis of HRM fiscal position and outlook would require a review to larger peer cities (internationally) and/or a sub-sovereign credit rating agency to review HRM fundamentals.

FINANCIAL IMPLICATIONS

There are no budget implications from the conclusions summarized in this report. HRM's net fiscal position is robust relative to most regional and national comparators.

COMMUNITY ENGAGEMENT

No community engagement was required.

ATTACHMENTS

Attachment 1 - Financial Condition Indicators Highlights for 2020-21

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Financial Condition Indicators Highlights for 2020-21

Overall Assessment

Green (low risk)

The overall Financial Conditions Index assessment for the Halifax Regional Municipality is green (low risk). This means that, although the Municipality has a few challenges, it is considered low risk for fiscal instability.

As shown in the House model below, HRM's FCIs are comprised of:

Low Risk (green): 11 Indicators

Moderate Risk (yellow): 2 Indicators

High Risk (red): 0 Indicators

Details on the individual FCI assessments and the Municipality's specific challenges are provided below.



Two-Year Comparison of Financial Condition Indicators

BASE	2020-21	2019-20	+/-
3-year Change in Tax Base	● 10.4%	● 8.9%	1.5%
Reliance on a Single Business or Institution	● 1.8%	● 1.7%	0.1%
Residential Tax Effort	● 3.8%	● 3.7%	0.1%
STRUCTURE			
Uncollected Taxes	● 3.9%	● 3.9%	0.0%
5 Year Budget Accuracy	● 5/5	● 5/5	0
Operating Reserves	● 19.9%	● 11.0%	8.9%
Debt Service	● 6.3%	● 5.7%	0.6%
Outstanding Operating Debt	● 0.2%	● 0.2%	0.0%
Undepreciated Assets	● 47.0%	● 48.4%	-1.4%
ROOF			
Deficits in the Last 5 Years	● 0/5	● 0/5	0
Liquidity	● 2.2	● 1.6	0.6
Reliance on Government Transfers	● 7.8%	● 1.4%	6.4%
Combined Reserve	● 46.4%	● 34.0%	12.4%

* For 3-year Change in Tax Base, CPI % change for 2020-21 is 6.7% and for 2019-20 is 3.2%