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Information Item No. 1
Audit & Finance Standing Committee
December 13, 2023

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: -ORIGINAL SIGNED-

Cathie O'Toole, Chief Administrative Officer

DATE: September 5, 2023

SUBJECT: Provincial Financial Indicators Report 2021/22 – Halifax Regional Municipality

INFORMATION REPORT

ORIGIN

The Department of Municipal Affairs & Housing produces an annual Financial Condition Indicator (FCI) report for Nova Scotian Municipalities. This report summarizes the HRM FCI report and addresses highlighted issues.

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 the development of a monitoring system that evaluated and compared the fiscal health of NS municipalities. These indicators include measures of net financial position, annual cash flow, reserve balances, debt and debt service cost, and ability to cover financial obligations.

DISCUSSION

Nova Scotia municipalities including HRM 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 & Housing to collect key 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 true economic and financial health. It's a snapshot used to understand the short-term financial risks and other prudent information such as demographic and community information associated with the municipality. Comparing HRM's net financial position to smaller NS municipalities with significantly different organizational structures, financial reporting policies, and public mandates is difficult and can be misleading. It is more useful and effective to evaluate HRM's indicator trends over time. It is also important to note that for the FCI reporting to apply consistently across all NS municipalities, a significant deviation and change from HRM's standard accounting policies is required and applied to the data provided through the FIR. This means that the HRM financial information presented within the FCI report may differ materially from the financial information provided through HRM's annual audited consolidated financial statements. It is also important to note that some of the FCI metrics may be fundamentally misleading without important context.

HRM's financial indicators have continued to signal a healthy fiscal position, characterized by strong economic fundamentals and sound financial management and budgeting practices. Demographic trends in HRM have strengthened as people continue moving to the region, leading to strong growth in the tax base and future economic outlook. Overall, for 2021/22 HRM scored low risk (green) on 8 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, tax collection, and combined financial reserves. The overall summary is provided in figure 1 below, as well as a high-level explanation of the meaning behind each indicator.

Financial Indicator Explanations

Reliance on a Single Business or Institution (1.6%) – a measure of what percentage the single largest business or institution makes up of the total uniform assessment. Low risk is less than 10%.

Residential Tax Effort (3.4%) – a measure of the total residential tax revenue per dwelling unit in relation to the median household income. Low risk is less than 4%.

Three-Year Change in Tax Base (10.3%) – a measure of the change in uniform assessment over a three-year period compared to the current consumer price index change year-over-year. Low risk is equal or above the CPI% change.

Debt Service (4.4%) – a measure of the amount of principal and interest paid on long term debt compared to total own source operating revenue. Low risk is less than 10%.

Outstanding Operating Debt (6.3%) – a measure of the total outstanding operating debt compared to total own source operating revenue. Low risk is less than 25%.

Operating Reserves (11.0%) – a measure of the total operating reserve fund balance compared to total operating expenditures. Low risk is greater than 20%.

Uncollected Taxes (3.7%) – a measure of the cumulative uncollected taxes compared to the total taxes billed in the current fiscal year. Low risk is less than 10%.

Undepreciated Assets (45.8%) – a measure of the remaining undepreciated total net book value of total capital assets compared to the gross cost of total capital assets. Low risk is greater than 50%.

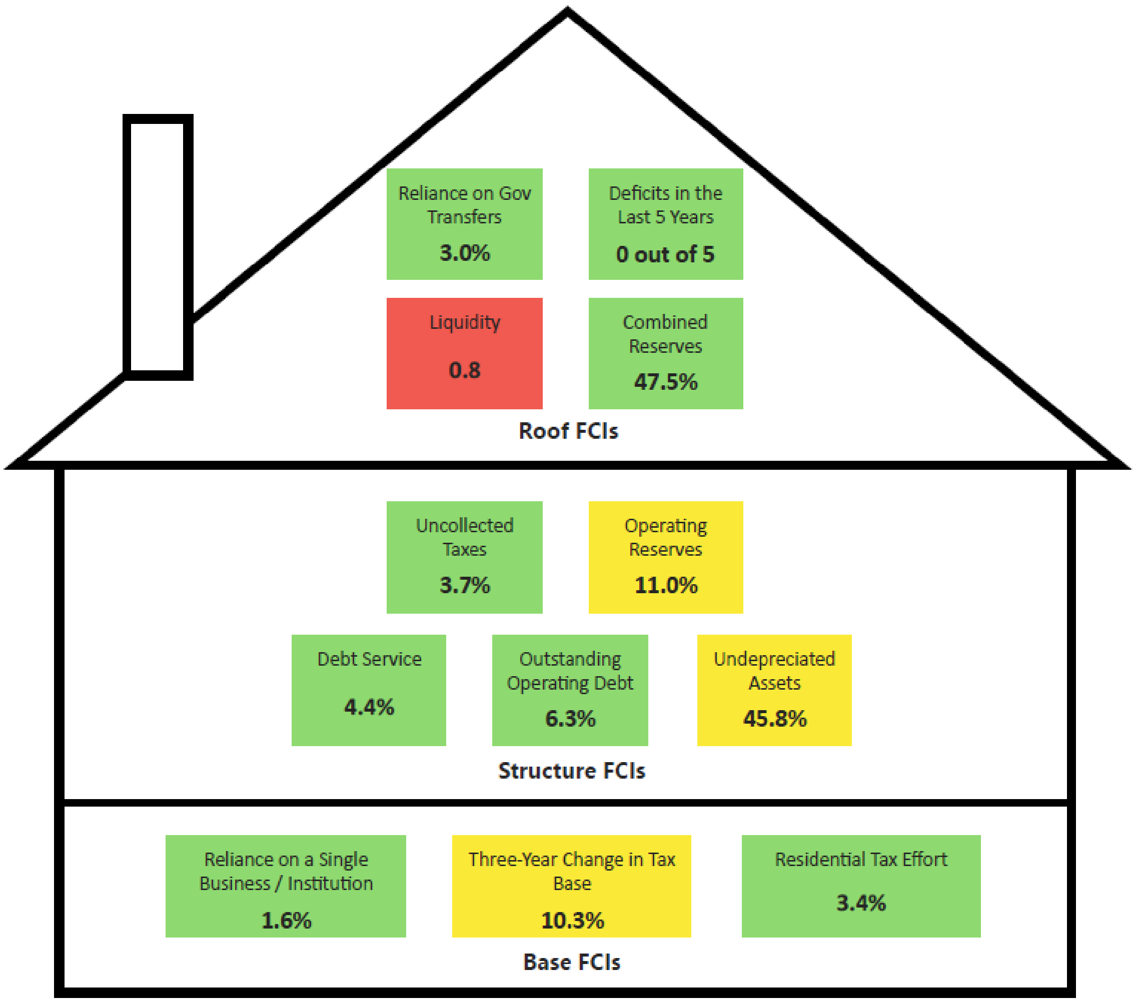
Reliance on Government Transfers (3.0%) – a measure of total government transfers compared to total revenue. Low risk is less than 15%.

Number of Deficits in the Last 5 Years (0) – the total number of operating deficits in the last five years. Low risk is 0.

Liquidity (0.8) – a measure of total current assets compared to total current liabilities. Low risk is greater than 1.5.

Combined Reserves (47.5%) – a measure of the total operating and capital reserves compared to the total operating plus amortization expense. Low risk is greater than 40%.

Figure 1 – 2021/22 Indicator Summary



HRM has three moderate risk scores and one high risk score:

1) Undepreciated Assets – This metric was also moderate risk in 2020/21. It indicates that the majority of HRM assets are past the halfway point of their useful life for accounting purposes. The useful life of an asset is defined by the Municipal financial reporting and accounting manual (FRAM) published by the province.

2) Operating Reserves - This metric was also moderate risk in 2020/21. This metric is not a great measure for an organization as complex as HRM. HRM has many reserves that are well funded, which highlight in the "Combined Reserves" metric, not all these reserves are considered "operating" under the report. The report also doesn't take into consideration that should an event required funding from the operating reserve, HRM has the ability to transfer funding from other reserves.

3) Three-Year Change in Tax Base – This metric is considered moderate risk because the three-year change in uniform assessment (10.3%) is slightly less than the 2021/22 CPI % of 12.1%. This suggests that the tax base growth is lagging behind inflation. It is important to note that HRM has

no power to affect this metric, as PVSC is solely responsible for assessments, and CPI is a measure of inflation.

4) Liquidity – This metric is considered to be high risk, suggesting that in the short term HRM would potentially have trouble covering its financial obligations. This is very misleading however, and can be explained because HRM transferred a large amount of cash into short term investments to take advantage of market conditions and generate a return on investment for the municipality. These investments are short term, with varying maturity dates, and provide HRM with access to this cash balance if needed. When calculating this metric, the province does not consider short term investments to be a current asset. It is expected that this ratio will return positive and present low risk by the next annual report, however HRM is already in an extremely good liquidity position with access to a very healthy cash balance to cover all financial obligations.

Figure 2 – year-over-year Indicator Change Summary

Two-Year Comparison of Financial Condition Indicators

ROOF	2021-22	2020-21	+/-
Reliance on Government Transfers	3.0%	7.8%	-4.8%
Deficits in the Last 5 Years	0	0	0
Liquidity	0.8	2.2	-1.4
Combined Reserves	47.5%	46.4%	1.1%

STRUCTURE	2021-22	2020-21	+/-
Uncollected Taxes	3.7%	3.9%	-0.2%
Operating Reserves	11.0%	19.9%	-8.9%
Debt Service	4.4%	6.3%	-1.9%
Outstanding Operating Debt	6.3%	0.2%	6.1%
Undepreciated Assets	45.8%	47.0%	-1.2%

BASE	2021-22	2020-21	+/-
Reliance on a Single Business or Institution	1.6%	1.8%	-0.2%
3-Year change in Tax Base*	10.3%	10.4%	-0.1%
Residential Tax Effort	3.4%	3.8%	-0.4%

Notable variances year-over-year:

1) Reliance on government transfers – As a result of the COVID-19 pandemic, HRM received significant funding from other levels of government during 2020/21. This funding did not repeat in 2021/22, which caused the metric to fall to a normal level.

2) Operating reserves – As a result of the COVID-19 pandemic, HRM reduced its operating expenditures during the 2020/21 fiscal year. During this time the operating reserve balances remained relatively consistent, which caused the metric to increase from 11% to 19.9% from 2019/20 to 2020/21. Following 2020/21, operating expenditures begun returning to pre-pandemic levels and caused the metric to fall back to 11% in 2021/22.

3) Outstanding operating debt – HRM did not take a 2020 debenture which substantially reduced the debt service ratio in this year. In 2021 a debenture was issued which returned the ratio to a normal level.

Overall, HRM's fiscal management and risk profile remain strong. The municipality remains in a position of very strong liquidity, with a conservative debt portfolio, and robust tax base that, along with solid fiscal framework and policies, will allow for sound financial management into future fiscal years.

FINANCIAL IMPLICATIONS

There are no financial implications from the conclusions summarized in this report.

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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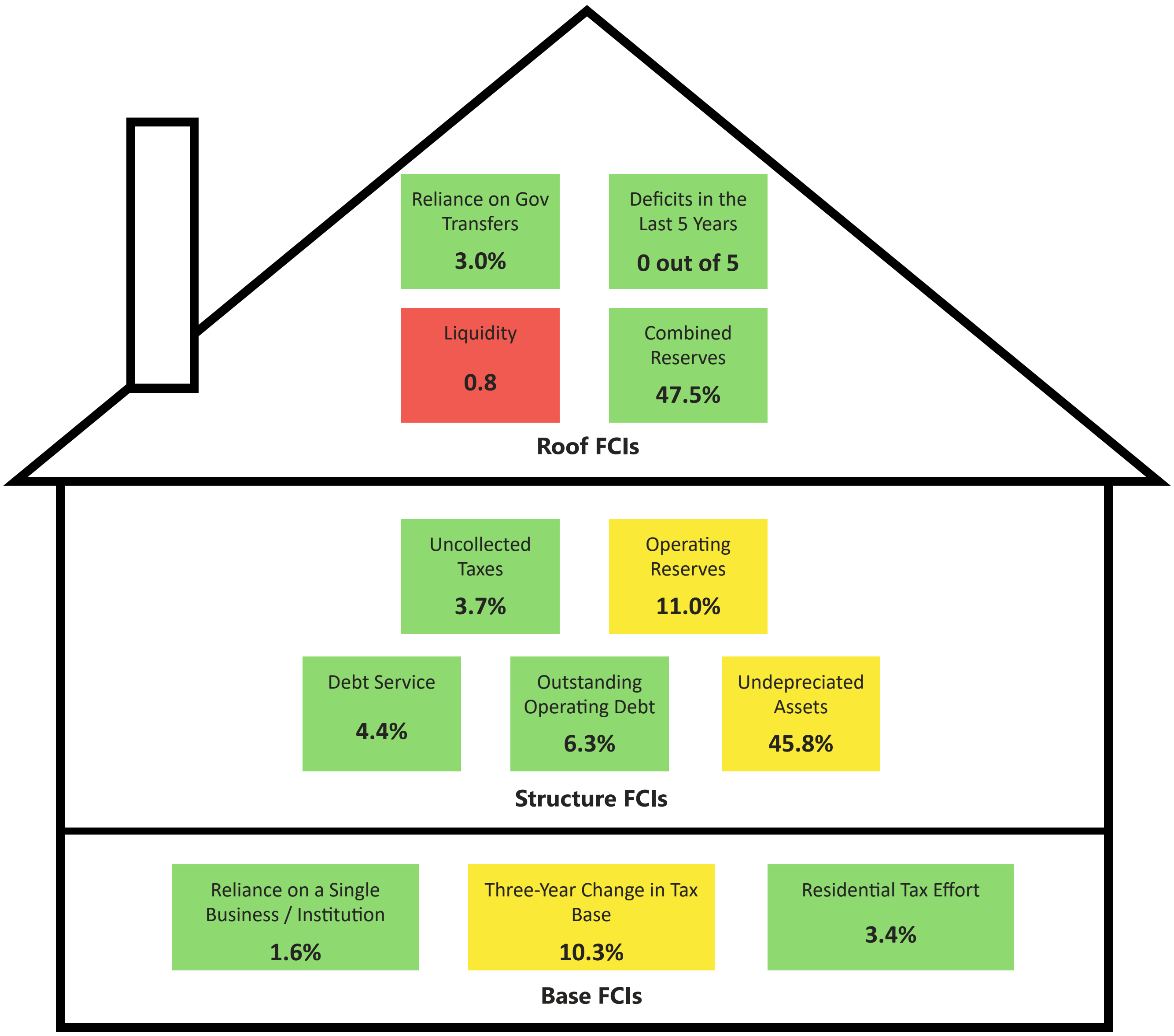
Financial Condition Indicators Highlights for 2021-22

Overall Assessment	**Yellow (Moderate Risk)** The overall Financial Conditions Index assessment for the Halifax Regional Municipality is Yellow (Moderate Risk). This means that while the Municipality has some challenges, it is considered moderate risk for fiscal instability.

As shown in the House model below, the Halifax Regional Municipality FCI's are comprised of:

Low Risk **(green)**:	8 Indicators
Moderate Risk (yellow):	3 Indicators
High Risk **(red)**:	1 Indicators

Individual FCI results are presented in the House below and are compared to last year's results on the next page.



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*For the 3-year Change in Tax Base, the CPI change for 21-22 is 12.1% and for 2020-21 is 6.7%