

## **REPORT**

**REPORT TO:** The Chair and Members of the Community and Corporate Affairs Committee

**REPORT FROM:** Amy Prueter, Senior Financial Analyst

**DATE:** January 16, 2019

**REPORT NO.:** CORPSERV-2019-0010

**RE:** Ministry of Municipal Affairs and Housing 2017 Financial Indicator Review

### **RECOMMENDATION:**

THAT Report No. CORPSERV-2019-0010 dated January 16, 2019 regarding the Ministry of Municipal Affairs and Housing 2017 Financial Indicator Review be received as information.

### **BACKGROUND:**

Each year the Ministry of Municipal Affairs and Housing (Ministry) distributes a Financial Indicator Review, based on the results reported in the Town's Financial Information Return (FIR) and Financial Statements. It also includes the comparative median and average results of other non-rural, lower-tier municipalities in Southern Ontario. The 2017 Financial Indicator Review is based on the information reported in the 2017 FIR, which was presented to the Community and Corporate Affairs Committee on May 28, 2018.

Minor changes were made to the how the indicators are calculated in 2017 and indicators were renamed in order to make them easier to understand. The Debt Servicing indicator has been changed to the "Debt Servicing cost as a % of Total Revenue" in order to recognize all revenues available to the municipality. The "Net Financial Assets or Net Debt as a % of Own Purpose Taxation, User Fees and Service Charges" indicator title has changed but the data and calculation remain the same. The indicator previously named "Cash and Cash Equivalents as a % of Current Liabilities" has been changed to "Cash Ratio". The formula for this indicator is the same but is presented as a ratio rather than a percentage.

The name of the Asset Consumption ratio has been changed to “Closing Amortization Balance as a % of Total Cost of Capital Assets” and the Operating Surplus ratio has been renamed to “Annual Surplus/(Deficit) as a % of Own Purpose Taxation, User Fees and Service Charges” as these indicators are measured as a percentage, not a ratio. The other 2017 published indicators remain the same, as previous years.

In May 2009, the Public Sector Accounting Board (PSAB) released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. Consistent with this, the Ministry has divided the indicators into sustainability and flexibility categories:

- a. The sustainability indicators measure the degree to which a government can maintain its existing financial obligations both with respect to its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden. It also describes the impact that the level of debt could have on service provision. For example, if a government’s net debt is increasing faster than its own purpose taxation and user fees, then there is heightened risk around the maintenance of service levels.
- b. The flexibility indicators measure the degree to which a government can change its debt or tax burden to meet its existing financial obligations both with respect to its service commitments to the public and financial commitments to creditors, employees and others. It provides insight into how a government manages its finances. Increases in current borrowing, reduces future flexibility to respond to developing adverse economic circumstances. Similarly, increases in taxation, user fees and services charges, reduces the ability of a government to do this in the future as citizens and businesses have a limit to what they are willing to pay.

The Town has incorporated some of the relevant Financial Indicators into the Long Range Financial Plan and monitors compliance with these indicators prior to making financial decisions.

## **COMMENTS:**

Appendix A lists the results of the seven indicators that the Ministry is measuring. The 2017 review also includes the previous four years from 2013 through 2016 for purposes of comparison. Additional notes on how each of the indicators is calculated and supplementary information is also included.

The Ministry assigns a risk factor to each of the indicators and rates results on a low, moderator or high risk category. The Town falls into the low risk category in all but one of the indicators. The “Debt Servicing Cost as a Percentage of Total Revenues” is categorized with a moderate level of risk. The following section reviews each of the 7 financial indicators in detail.

## **Sustainability Indicators**

### **1. Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied**

This ratio is a measure of outstanding taxes receivable as a percentage of total taxes that are levied in the year. The Town has only 4.0% of taxes that are classed as due and payable to the Town as at December 31, 2017. This trend continues to improve and remains favourable when compared to the other municipalities. The Ministry classifies this result as low risk and is indicative of tax payers paying their taxes in a timely manner.

### **2. Net Financial Assets or Net Debt as a % of Own Purpose Taxation, User Fees and Service Charges**

Net financial assets or net debt is calculated by subtracting the Town's liabilities from its assets. The Town is in a net financial asset position, as the value of assets exceeds its liabilities. When the net financial asset value is divided by the sum of own purpose taxation, user fees, and service charges for 2017 the Town's ratio is 137.3% and falls into the low risk category.

The ratio has improved over the past 3 years due to higher short-term investments through additional contributions to Town reserves and lower long term liabilities through repayment of long term debt.

### **3. Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses**

This indicator measures the balance in the Town's reserves to current operating expenses (including amortization), and is used to determine whether there are sufficient funds set aside to cover unplanned expenses.

Total reserves are currently sitting at 65.5% of 2017 operating expenses indicating a low level of risk and a continued positive trend. For the current reporting year this is slightly higher than 2016 and remains higher than the municipal comparators. The positive trend for 2017 is due to a greater increase in reserves and discretionary reserve fund balances when compared to the increase in operating expenses.

### **4. Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)**

Total cash on hand as at December 31, 2017 and the book value of the short-term investments with the Region are the numerators for this ratio. The denominator is driven by the Accounts Payable balance outstanding at year end, otherwise known as current liabilities. This is a measure of the Town's liquidity or the ability to pay out of cash the current invoices that are waiting to be paid.

At the end of 2017, the Town was in a position to pay those outstanding invoices 5.05 times. There was \$74.6M of cash on hand, an increase of \$11M over 2016 and current liabilities were \$14.2M, up \$0.5M over last year.

The year-over-year review of this indicator shows a large favourable increase commencing in 2014. Following an analysis of the ratio results in 2013 and discussions on the nature of the investments the Town makes with the Region, it was determined the investments should be classified as cash equivalents for the purpose of reporting on the FIR instead of long-term investments. As such, this change was made for the 2014 reporting period, impacting the historic trend of this indicator for the 2013 fiscal year.

## **Flexibility Indicators**

### **5. Debt Servicing Cost as a % of Total Revenues**

This indicator measures the current portion of long-term debt which consists of principal and interest for the operating year and compares it with annual revenues to determine how much of those revenues are being used to repay debt.

In 2017 the Town used 5.8% of its annual operating revenues to cover debt costs, an increase over the prior year. This falls into the moderate risk category. Analysis of the indicator show that debt principal and interest charges are comparable with 2015 and 2016 however, operating revenue is \$5.5M lower. Lower revenues for 2017 were a result of differences in the recognition of gains on disposal of fixed assets and lower utilization of development charge revenues.

### **6. Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)**

This indicator measures the cost of accumulated amortization against the historical cost of the Town's assets. The ratio indicates that based on accounting useful life, 45.3% of the depreciable assets have been used. This is categorized with a low level of risk. The level has remained constant over the 5-year comparative period however it is on average, higher than the comparator municipalities.

It is important to consider that this ratio uses historical capital asset book value, not current replacement cost. Also, the amortization rates are based on accounting useful life, not actual remaining life based on the current condition of the asset. The Town's asset management plan involves collecting data on the condition of the assets. This, combined with a calculation of an optimal maintenance and replacement program, will allow for a more accurate quantification of the Town's asset consumption ratio.

## **7. Annual Surplus/(Deficit) as a % of Own Purpose Taxation, User Fees and Service Charges (Operating Surplus Ratio)**

This indicator measures the ability of the Town to cover operational costs and have funds available for other purposes. In 2017 the Town had an operating surplus ratio of 17%. This ratio is comparable with the municipal median value and while it has declined since 2016, it remains a low risk level.

The numerator of this ratio is the annual surplus which was lower in 2017 due to lower operating revenues. As discussed previously, this is a result of differences in the recognition of gains on disposal of fixed assets, and lower utilization of development charge revenues. In addition to these drivers, higher expenses in 2017 contribute to a decrease in the ratio.

### **RELATIONSHIP TO STRATEGIC PLAN:**

The recommendations within this report support Council's strategic priority regarding financial sustainability:

Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.

### **FINANCIAL IMPACT:**

There is no financial impact directly related to this report.

### **CONSULTATION:**

A detailed review of the Statement of Financial position by Finance staff was required to explain the reasons for movements in financial results over the 5-year comparative period.

### **PUBLIC ENGAGEMENT:**

There has been no public engagement by the Town with respect to this report.

### **SUSTAINABILITY IMPLICATIONS:**

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

**COMMUNICATIONS:**

There is no communications impact associated with this report.

**CONCLUSION:**

The Financial Indicator Review is an important but incomplete picture of municipal financial health. It can be used as a tool to identify potential problem areas associated with the financial status of the Town. Based on the financial indicators, the Town falls into the low challenge category in all but one of the indicators. The "Debt Servicing Cost as a Percentage of Total Operating Revenue" is categorized at a moderate challenge level.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

Moya Jane Leighton, Manager of Accounting and Town Treasurer

A handwritten signature in black ink, appearing to read "Jane Diamanti".

Jane Diamanti, Commissioner of Corporate Services

A handwritten signature in black ink, appearing to read "Brent Marshall".

Brent Marshall, Chief Administrative Officer