

**HRM Grants Committee  
July 3, 2012**

**TO:** Chair and Members of HRM Grants Committee



**SUBMITTED BY:** \_\_\_\_\_  
Greg Keefe, A/Director of Finance & Information Technology

**DATE:** June 21, 2012

**SUBJECT:** **Community Grants Program: Delinquent Reporting Proposed Policy  
and Procedures**

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**ORIGIN**

March 5, 2011 – HRM Grants Committee discussion regarding overdue reporting for awards issued under the *HRM Community Grants Program*

**RECOMMENDATION**

It is recommended that the HRM Grants Committee recommend Regional Council approve the proposed amendments to the Community Grants program policy and procedures as detailed in the Discussion section of this report, effective April 1, 2013.

## **BACKGROUND**

In 2011, an Information Report was submitted to the HRM Grants Committee listing organizations in default of the *Community Grants Program* reporting requirements. The committee approved acceptance of a payment plan to refund a grant a grant for which reporting had not been received and suggested that a limit be imposed on any carry forward of an award. This report puts forth proposed policy and procedures aimed at reducing the risk of default.

## **DISCUSSION**

To allow for the development of reporting guidelines and timely notification to prospective applicants, an effective date of April 1, 2013, is proposed. If approved, the proposed policies and procedures would be incorporated into the applicable program guidelines, letters of notification or caution, and report forms.

### **Standardized Applicant Eligibility Screening**

Screening applicants for debt, legal proceedings, or overdue reporting has been employed by the *Community Grants Program* but has not been applied to other assistance programs delivered under the auspices of the HRM Grants Committee. Specifically, the *Tax Exemption for Non-Profit Organizations Program*, *Fire Tax Concessions*, *BID Contributions Fund*, *Community Facilities Partnership Fund*, and discounted property sales and leases. For consistency, it is recommended that organizations “not in good standing” be denied discretionary municipal assistance.

If approved, the application of this policy would suspend consideration of a lease renewal, discounted property sale, tax exemption award, or cash grant pending receipt of overdue reporting or repayment.

1. *It is recommended that all assistance programs administered under the auspices of the HRM Grants Committee screen applicants for outstanding receivables due to HRM, legal proceedings by or against the Municipality, or non-compliance with contractual and/or funding commitments.*
2. *It is recommended that an organization in breach of the terms and conditions of municipal assistance be notified in writing of disqualification from further financial or in-kind municipal assistance pending compliance with reporting or repayment.*

### **Funding Threshold to Secure Cost-Sharing Commitments**

In practice, the project budget provided in *some* applications has been reduced or eliminated after an award is granted, leaving HRM as the sole funder. In an effort to secure cost-sharing commitments a funding threshold has been applied to some awards. Typically, this restriction has been used for projects that depend on unconfirmed third party financing, future fundraising, and awards to new organizations and/or projects whose sustainability cannot be established.

HRM's funding threshold is expressed as both a dollar value and as a percentage of total costs. If the proponent's cash expenditures are reduced, HRM's cash contribution is automatically reduced.

3. *It is recommended that when an HRM award is conditional upon cost-sharing, the value of grant shall be stated as both a maximum dollar amount and as percentage of total actual costs.*

### **Carry Forward of an Award**

If an organization is unable to complete a project by the reporting deadline (March 31<sup>st</sup>), the grant may be carried forward to the next fiscal year. Restricting the duration of an extension is intended to discourage misrepresentation or generic fundraising requests. In exceptional circumstances where a delay or default is due to unforeseen events beyond the applicant's control, the Grants Committee may be asked to adjudicate any appeal.

4. *It is recommended, effective fiscal year 2013-2014, that any reporting extension granted to an organization shall be limited to one (1) year, after which full or partial repayment is due to HRM.*
5. *The recipient of a grant extension shall be notified in writing that the grant or some portion thereof shall be forfeited after one (1) year. The letter of notification shall state the revised reporting due date.*
6. *An organization may receive only one (1) grant in a fiscal year. Therefore, an organization in receipt of an extension is ineligible to receive further funding from the Community Grants Program in the same fiscal year.*

### **Grant Holdbacks**

To reduce the risk of unauthorized expenditures or non-reporting assistance programs employ various risk management techniques. For example:

- A fixed % of the grant is withheld pending receipt of a final report. The balance of the grant is forfeited if a report is not received by the stated deadline.
- A grant is issued on a reimbursement basis. Payment is issued upon receipt of proof of expenditures in accordance with the terms and conditions of funding.
- A grant is issued in instalments based upon receipt of progress reports and proof of expenditures.
- The "right of offset" is invoked whereby all or some portion of a payment due to a third party is (a) diverted to a debt/receivable owed to the municipality, or (b) to secure repayment of a grant. Typically, such payments are first applied to the oldest debt that is not secured by assets (ie. non-lienable). In principle, a cash grant or donation payable to a non-profit group could be re-directed towards repayment of a grant, tax or rent arrears, fees or fines.

The *Community Grants Program* does not award grants for debt payment irrespective of the nature of the debt or creditor. Therefore, invoking the right of offset to divert a grant towards debt payment is contradictory. In effect, HRM would be paying itself and fail to hold the non-profit accountable. **Because the current *Tax Exemption for Non-Profit Organizations Program* is unable to issue tax bills in accordance with the regular billing cycle, an unpaid balance in the current fiscal year is not considered overdue. Within this context, the term “tax arrears” applies only to overdue payments in excess of one (1) year.**

7. *Invoking the right of offset to recover repayment of a grant or ineligible expenditures is not recommended.*

In preference to invoking the right of set-off, a holdback is proposed for cash awards above a specified value. If a holdback is applied the grant recipient receives a fixed percentage of the award and the balance is held by HRM pending receipt of full and accurate reporting of eligible expenditures. Given the volume of annual applications to the *Community Grants Program*, uniformly applying a holdback to every grant adds to the administrative workload. Therefore, consideration should be given to the type, scale, and frequency of default.

Using 2004-2010 data for delinquent reports and uncollectable accounts, the highest rate of default is for grants under \$5,000. Typically, these smaller awards are developmental; small-scale projects, new organizations, or volunteer groups with modest financial capacity. Based on frequency, the combined value of smaller awards represents a larger potential loss as compared to fewer individual awards of higher value, most of which are capital grants. Notwithstanding the combined risk, the individual awards tend to be modest and the conditions of funding can be structured to try and reduce default. For example, reimbursement, progress payments, or withheld pending receipt of confirmed balance of funding.

In preference to a standardized holdback, incremental thresholds are proposed so as to avoid disqualifying groups with limited financial resources. Holdbacks would be applied in cases where HRM has agreed to fully fund a request. Therefore, the applicant’s financial capacity would have to allow for \$500 to \$1,000 in cash flow if the value of grant is \$5,000-\$10,000. Suppliers could also be asked to accept payment after 30 days. The use of holdbacks might also encourage applicants’ to confirm their project’s viability in preference to using speculative or unconfirmed revenue sources, to apply for less than the maxim value of award, or phase a project according to their financial capacity.

The proposed incremental thresholds for holdbacks applied to awards in shown below in Table 1.

Table 1. Schedule of Incremental Holdbacks (Proposed)	
Value of Grant	Proposed Percentage Holdback
Under \$5,000	No holdback – higher frequency of default; developmental award; accommodates small volunteer groups with modest resources. Increases emphasis on veracity of application review.
\$5,000-\$10,000	10% holdback – moderate risk in frequency and value of award. Encourages accurate cost projections or phased project delivery in accordance with cash flow capacity.
Over \$10,000	20% holdback – higher risk relative to the value of award.

8. *It is recommended that a 10% holdback be applied to all awards valued at \$5,000 to \$10,000 issued under the Community Grants Program, effective 2013-2014. Grant recipients who fail to submit a final report by the stated deadline shall forfeit the balance of the grant.*
9. *It is recommended that a 20% holdback be applied to all awards valued over \$10,000 issued under the Community Grants Program, effective 2013-2014. Grant recipients who fail to submit a final report by the stated deadline shall forfeit the balance of the grant.*
10. *The balance of a grant shall not be forfeited in the event of an approved carry forward of an award for up to one (1) year.*

### **Recourse for Non-Compliance: Notification to Applicants**

Once the reporting deadline has passed delinquent grant recipients should be notified promptly in writing of the (a) default of any holdback, and (b) a caution notice that if reporting is not received within 30 days that repayment of the grant is due in full to HRM. Failure to comply would result in suspension of eligibility for further funding consideration and the grant (or refund of ineligible expenses/balance remaining) becomes a receivable. HRM then has the option to pursue collection proceedings. The latter course of action is only likely to be pursued in the event of persistent non-compliance or significant losses. The organization should also be advised of potential ineligibility for other forms of HRM assistance including but not limited to discounted leasing and sales, or tax exemption.

11. *It is recommended that in the event of an overdue grant report or repayment, or tax arrears in excess of one (1) year, eligibility for a municipal donation or grant, tax exemption, less than market value property sale or lease, or in-kind contribution shall be suspended.*

### **Compliance Monitoring and Public Reporting**

To enhance full public accountability on the part of both HRM and grant recipients, a report shall be submitted annually to the Grants Committee that identifies delinquent reporting, outstanding

payments due to HRM, and uncollectable accounts. Outstanding payments to HRM include the full or partial refund of an award, reimbursement for ineligible expenses, or any balance remaining from a grant. The term “uncollectable accounts” refers to organizations that have disbanded.

*12. It is recommended that a report on the status of delinquent reporting or outstanding payments shall be submitted annually to the HRM Grants Committee and posted on the HRM web site.*

### **BUDGET IMPLICATIONS**

Any administrative costs shall be covered within the Grants Program budget (A811).

### **FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality’s Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

### **COMMUNITY ENGAGEMENT**

Not applicable.

### **ALTERNATIVE**

1. The application of a 10% holdback could be applied uniformly across all awards, irrespective of value.

### **ATTACHMENTS**

None.

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A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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