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Item No. 4
Halifax Regional Council
November 30, 2010

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by Director

Cathie O'Toole, CGA, MBA - Director of Finance/CFO

DATE: November 23, 2010

SUBJECT: Fiscal Health Indicators – March 31, 2010

INFORMATION REPORT

ORIGIN

The Fourth Quarter 2009/10 Financial Report to Council on August 10, 2010 included Fiscal Health Indicators for the fiscal year ended March 31, 2009 and indicated that indicators for fiscal year end March 31, 2010 would be provided with the Financial Statements.

BACKGROUND

In June 2009, Regional Council approved the definition of Fiscal Health for HRM and a list of key indicators to measure HRM's fiscal health. The consolidated financial statements for HRM for the fiscal year ended March 31, 2010 have recently been completed and this report provides key indicator results based on these draft financial statements.

DISCUSSION

The June 2009 Fiscal Health report identified 8 categories of indicators listed in priority order in the report. This report will focus on the third, fourth and fifth priority indicators - Sustainability, Vulnerability and Flexibility. The first priority indicator – debt – is reviewed on at least an annual basis in conjunction with HRM’s annual budget process. The financial statements for March 31, 2010 include net outstanding debt of \$249 million down \$95 million from March 31, 2009 net outstanding debt of \$344 million. The second priority indicator – asset condition – was recently presented to Regional Council on August 10, 2010 in the Fourth Quarter 2009/10 Financial Report. This report included a current rating for roads, bridges, sidewalks, curbs, ferries and vehicles with ratings ranging from Fair to Good as well as an implementation plan for condition ratings on other classes of assets.

Indicators below are based on HRM’s reporting entity included in the consolidated financial statements and include the information for March 31, 2009 as previously presented in the fourth quarter report as well as the updated 2009 and 2010 information from the March 31, 2010 consolidated financial statements which include the change in accounting policy related to tangible capital assets. Longer term trend analysis on the fiscal health indicators requires further review to ensure that the change in accounting for tangible capital assets and other changes in financial statement presentation are appropriately considered in the trend analysis. For example, whereas prior years’ financial statements included capital items as expenditures, the March 31, 2010 financial statements have been prepared to appropriately record the tangible capital assets and additions during the year on the Statement of Financial Position. In addition, gain/loss on sale of assets and donated tangible capital assets are included in total revenue with tangible capital asset accounting which were not included in prior years’ financial statements and amortization is a new expense item within the 2010 financial statements. Staff continue to develop these indicators to provide historical trend analysis and comparisons with other jurisdictions.

Sustainability

Sustainability is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates.

Indicator	Description	03-31-09 in 4th qtr report	03-31-09 as restated	03-31-10
Assets to Liabilities	Indicates the extent to which HRM finances operations by debt. Greater than one indicates HRM has an accumulated surplus. Less than one indicates HRM has been financing operations by issuing debt.	1.37	4.84	5.57

Financial Assets to Liabilities	Ratio of less than one indicates a net debt position and future revenues will be required to pay for past transactions. Greater than one indicates financial resources are on hand to finance future operations.	1.36	1.42	1.75
Expense by function to total expenses	Trend in spending – a program area that grows at a much faster rate than total expenses may have an impact on the sustainability of other programs: General government services Protective services Transportation services Environmental services Recreation and cultural services Planning and development services TOTAL	14.77% 24.45% 28.30% 13.70% 12.53% 6.25% <u>100.00%</u>	16.96% 25.72% 31.56% 8.26% 11.76% 5.74% <u>100.00%</u>	18.34% 26.96% 29.72% 8.33% 11.57% 5.07% <u>100.00%</u>
Total expenses to taxable assessment	Trend in spending in relation to the growth in the economy. If total expenses grow at a faster rate than growth in the economy – may not be sustainable	.0222	.0206	.0203

Vulnerability

Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence. A government with a relatively low vulnerability indicator has greater control over its financial condition.

Indicator	Description	03-31-09 in 4 th qtr report	03-31-09 as restated	03-31-10
Government transfers to total revenue	Degree of vulnerability HRM faces as a result of dependence on other levels of government for revenue.	N/A	0.0962	0.0885

Flexibility

Flexibility is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations. Flexibility provides insights into how a government manages its finances. A government that increases its current borrowing reduces its future flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxation or user fees reduces its ability to do so in the future as a government approaches the limit that citizens and businesses are willing to bear.

Indicator	Description	03-31-09 in 4th qtr report	03-31-09 as restated	03-31-10
Public debt charges to revenue	Indicates the extent to which past borrowing decisions have an impact on HRM's ability to meet commitments in the current period. i.e. the more revenue is used to meet interest costs, the less will be available for program spending	0.0168	0.0157	0.0159
Own source revenue to taxable assessment	Shows the ratio of HRM's own-source-revenues to its tax base. A change in the size of the tax base or a change in the rate of growth in assessment in relation to changes to own-source-revenue could influence flexibility. Generally, over time, increases in the ratio suggest reduced flexibility.	N/A	0.0052	0.0044

Comparisons to other jurisdictions

As a start to benchmarking with other jurisdictions, the December 31, 2009 financial statements for the following municipal units were reviewed and indicators calculated based on the information presented in these financial statements: The Corporation of the City of London, The Corporation of the City of Victoria and the City of Regina. These are 3 of the 5 benchmarking cities used for economic comparisons as well. These are very preliminary comparisons and caution must be exercised before drawing any conclusions from this information. While the financial statements are prepared on a consistent PSAB basis, there is still the possibility of inconsistent accounting treatment and classifications. This is preliminary information only, subject to further review and analysis:

Indicator	London	Victoria	Regina	HRM
Assets to Liabilities	4.95	4.24	4.45	5.57
Financial Assets to Liabilities	0.95	1.32	1.07	1.75
Government transfers to total revenue	0.1999	0.0454	0.2468	0.0885
Public debt charges to revenue	0.0142	0.0226	0.008	0.0159

BUDGET IMPLICATIONS

None

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

N/A

ATTACHMENTS

None

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

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Original Signed