

Item No. 9.4.1
Audit & Finance Standing Committee
November 20, 2013

TO: Chair and Members, Audit & Finance Standing Committee

SUBMITTED BY: Original Signed
Councillor Walker, Chair, and Members of HRM Grants Committee

DATE: November 13, 2013

SUBJECT: Proposed Default Prevention and Management Practice

ORIGIN

Staff report dated October 24, 2013 presented at the November 4, 2013 HRM Grants Committee meeting.

LEGISLATIVE AUTHORITY

The HRM Grants Committee Terms of Reference set out that the duties of the Committee (s.4) are to:

- 4.1 Advise Regional Council on all matters related to the allocation of grants, as defined by Regional Council;
- 4.2 Develop eligibility criteria, priorities, policy and procedures for assistance under the respective programs and services managed under the auspices of the HRM Grants Program portfolio;
- 4.3 Evaluate programs and services managed under the auspices of the HRM Grants Program portfolio in cooperation with HRM staff, stakeholders, and the general public with a view to making recommendations to Regional Council respecting scope of programming, service standards, and funding capacity.

HRM Charter (2008) s.89 and s.73 regarding tax exemption; s.70(1) funding to business improvement districts; s.79(1)(av) to (vii) grants.

RECOMMENDATION

The HRM Grants Committee recommends to the Audit & Finance Standing Committee that the default prevention and management practice for programs administered under the Grants Committee Terms of Reference be updated to include the following:

1. All applicants to programs administered under the auspices of the HRM Grants Committee shall be screened for debt to the Municipality;
2. Any extension granted to an award recipient shall be limited to one (1) year;

Recommendations continued on page 2

RECOMMENDATION contd.

3. All recipients of a cash grant, tax exemption, community property sale or lease shall be notified in writing of their obligations and the applicable sanctions for non-compliance.

BACKGROUND

Refer to the Background section of the October 24, 2013 staff report.

DISCUSSION

The Grants Committee reviewed and discussed the October 24, 2013 “Proposed Default Prevention and Management Practice” report at the November 4, 2013 Grants Committee meeting. Correspondence from David Fleming, Executive Director, North End Business Association, on behalf of the Executive Directors of the Sackville Business Association, Spryfield and District Business Association, Main Street Dartmouth Area Business Improvement District, Downtown Halifax Business Commission, Quinpool Road Mainstreet District Association, Downtown Dartmouth Business Commission, and the Spring Garden Area Business Association, dated October 28, 2013

Staff explained that the Grants program as a whole will be reviewed in 2014, and so until that time the proposed amendments are focused solely on default prevention and management.

Staff further clarified at the request of the Committee that the correspondence received from Mr. Flemming on behalf of the BIDs does not affect the staff recommendation. Staff further indicated that they would respond to the correspondence for clarification.

Refer to the Discussion section of the October 24, 2013 staff report for further information.

FINANCIAL IMPLICATIONS

As outlined in the October 24, 2013 staff report.

COMMUNITY ENGAGEMENT

Membership composition of the HRM Grants Committee consists of five (5) members of Regional Council as well as five (5) members of the general public. Grant Committee meetings are open to the public. Agendas, reports and minutes are available on the HRM website.

ENVIRONMENTAL IMPLICATIONS

None.

ALTERNATIVES

The Audit & Finance Standing Committee could amend or overturn a proposed recommendation.

ATTACHMENTS

1. Staff report dated October 24, 2013 - "Proposed Default Prevention and Management Practice"
2. Correspondence from David Fleming, Executive Director, North End Business Association, on behalf of the Executive Directors of the Sackville Business Association, Spryfield and District Business Association, Main Street Dartmouth Area Business Improvement District, Downtown Halifax Business Commission, Quinpool Road Mainstreet District Association, Downtown Dartmouth Business Commission, and the Spring Garden Area Business Association, dated October 28, 2013

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

Report Prepared by: Jennifer Weagle, Legislative Assistant, 490 6732



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Attachment 1

**HRM Grants Committee
November 4, 2013**

TO: Chair and Members of HRM Grants Committee

Original signed

SUBMITTED BY: _____
Greg Keefe, Director, Finance and ICT/CFO

DATE: October 24, 2013

SUBJECT: **Proposed Default Prevention and Management Practice**

ORIGIN

July 9, 2012 – Grants Committee recommendations regarding delinquent reporting.

August 12, 2013 – Grants Committee recommendation regarding screening applicants for debt to the Municipality.

LEGISLATIVE AUTHORITY

HRM Charter (2008) s.89 and s.73 regarding tax exemption; s.70(1) funding to business improvement districts; s.79(1)(av) to (vii) grants.

RECOMMENDATION

It is recommended that the HRM Grants Committee forward the following recommendations with respect to default prevention and management for programs administered under the committee's terms of reference to the Audit & Finance Standing Committee:

1. All applicants to program's administered under the auspices of the HRM Grants Committee shall be screened for debt to the Municipality;
2. Any extension granted to an award recipient shall be limited to one (1) year;
3. All recipients of a cash grant, tax exemption, community property sale or lease shall be notified in writing of their obligations and the applicable sanctions for non-compliance.

BACKGROUND

Notwithstanding the best intentions of recipients of municipal cash grants, tax exemption, property sales and leases, a small number of defaults will invariably occur. By embedding precautions in policy and/or procedures, recipients will be alerted to their responsibilities, aware of the repercussions, and encouraged to seek support in remediating their default. Controls to prevent and manage default should be cost-effective to enforce and proportionate to a program and HRM's risks.

Within the context of the programs administered under the Grants Committee's terms of reference, default can occur with respect to mandatory reporting, full or partial repayment of funding, or non-compliance with the terms and conditions of a grant, property sale or lease. The Grants Committee has debated the application of:

- A restriction on the duration of any extension provided to a grant recipient;
- Screening of grant, tax, and property sales and leasing applicants for debt to the Municipality;
- Use of a holdback on cash grants as a means of reducing the risk of delinquent reporting;
- Maximum funding thresholds expressed as both a dollar amount and as a percentage (%) of total costs.

This report addresses only debt screening, the "carry-forward" of a grant, and compliance monitoring for conditional awards. The application of any holdback on funding and funding thresholds will be addressed under a review of the portfolio's grant programs expected in 2014.

DISCUSSION

Default Prevention: The application of a pro-active approach includes early detection with timely remediation to decrease the severity or frequency of non-compliance. A constructive and consistent approach offers mutual benefit in reducing administrative inefficiencies and assisting organizations develop their ability to self-manage.

Default Management: Allowing a recipient (or prospective applicant) to remedy the default before more intrusive measures are taken aids relationships and efficiencies. The process includes monitoring the situation, evaluating the risk of revoking eligibility or the provision of further financial or in-kind assistance, and requires that the party in default works to remediate the situation and develop their ability to develop protocols to prevent a recurrence.

Debt Screening: To date, screening applicants for debt or reporting non-compliance has only been applied to the Community Grants Program. For consistency, it is recommended that organizations "not in good standing" be notified in writing of the default and denied further consideration until they fulfill their financial obligations. Assistance may be provided through a payment plan with the frequency and value of installments negotiated with the party in default. It is important to note that "tax arrears" shall be considered an amount outstanding in excess of one (1) year¹ and excludes any amount due under an approved payment plan with HRM Finance. If approved this policy would be applied to all programs administered by the Grants Program.

¹ Arrears in excess of one year excludes the interim tax bill and accommodates any delay with respect to applying a discretionary tax exemption to an account.

Limited Extensions (Carry-Forward): If an organization is unable to complete a funded project by the reporting deadline an extension may be granted/or denied. Restricting the duration of an extension is intended to discourage misrepresentation, generic fundraising², or default. The committee has recommended any extension be restricted to one (1) year, for a combined total of two years, after which reporting is due in full or repayment is to be made to HRM. The recipient of a grant extension would be notified in writing of the terms of any extension and that default shall result in full or partial repayment to HRM. Eligibility for additional funding shall be suspended until prior funding commitments are fulfilled.

Compliance Monitoring: Compliance includes a recipient's accounting for the appropriate use of funds or the fulfillment of any obligation associated with a grant, tax exemption, property sale or lease. The approach requires that recipients are aware of their contractual obligations and remit the applicable reporting or payment within specified timelines. Recipients should also be made aware of the applicable sanctions for non-compliance (suspension of eligibility, interest charges, collection proceedings, invoking a buy-back agreement, termination with cause etc). A record of default shall be submitted to the Grants Committee annually for oversight and any implications in program design.

FINANCIAL IMPLICATIONS

None. Any revisions to existing applicant information materials, or new materials, would be incorporated into existing administrative budgets.

COMMUNITY ENGAGEMENT

Not applicable: this is an internal administrative management practice intended to reduce HRM's exposure to financial losses and/or reporting non-compliance on the part of grant, tax or property-related municipal assistance.

ENVIRONMENTAL IMPLICATIONS

None.

ALTERNATIVES

The Grants Committee could amend or overturn a proposed recommendation.

² Applications that rely heavily upon unconfirmed funding or an ill-defined fundraising campaign may be declined or awarded provisionally with conditions, a holdback, payment in installments or by reimbursement to reduce the risk of default.

ATTACHMENTS

1. Default Prevention and Management: Current Practice.

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

Report Prepared by: Peta-Jane Temple, Team Lead Grants & Contributions, FICT, 490-5469

Original signed

Report Approved by: Bruce Fisher, Manager, Financial Policy & Planning 490-4493

Attachment 1

Default Prevention and Management: Current Practice

1. Community Grants Program

- Submissions are screened for compliance with any previous award under the program or debt to the Municipality.
- Mandatory final report and proof of expenditures due by stated deadline. Eligibility suspended for non-compliance.
- Annual update of delinquent reporting to the Grants Committee.

2. BID Contributions Fund

Mandatory final report and proof of expenditures due by deadline. Eligibility suspended for non-compliance.

3. Tax Exemption for Non-Profit Organizations Program

- Mandatory annual reporting for recipients of a tax exemption due by stated deadline but sanctions for non-compliance are not detailed in policy. On a case-by-case basis eligibility may be revoked or the level of exemption reduced: adjudicated by Grants Committee.
- Debt screening only for tax arrears. Interest applied to arrears.
- Collection of tax arrears secured by a lien against the property.

4. Property Sales to Non-Profit Organizations

- No screening for debt.
- Limited (ad hoc) monitoring of compliance with the terms and conditions of any conveyance or price concession.
- A supplementary Buy-Back Agreement may be used to prevent conveyance without HRM's consent or to secure heritage registration.

5. Property Leasing to Non-Profit Organizations

- No screening for debt.
- Recourse within a leasing agreement for arrears or violation of the terms of the lease.
- Limited or ad hoc monitoring.
- Eviction for non-compliance measure of last resort.

6. Community Facilities Partnership Fund (Suspended)

- Right to audit.
- Payment in instalments.
- Interim progress report and final report by stated deadline. Payment withheld for non-compliance.
- Individual contractual agreements.