

MEMORANDUM

TO: Audit Committee
FROM: Shelley Rector, CFO
DATE: February 21, 2019
SUBJECT: Report on Financial Condition Indicators

BACKGROUND:

The Department of Municipal Affairs, on behalf of the Nova Scotia Government and Association of Municipal Administrators of Nova Scotia (AMANS), annually compiles municipal indicators that focus on financial matters, administration of the municipality and characteristics of the community called Financial Condition Indicators (FCIs).

Later in the year there will be a report called the “Municipal Report” which will be shared with Council.

In calculating our FCIs it is worth noting that the numbers used in the report are net of the Town’s contribution to Education, Corrections and Housing.

The FCIs form a part of the “Municipal Report” and are provided to us for our review prior to the release of the report. Attached is a copy of the proposed FCI report for the Town of Amherst.

HIGHLIGHTS OF THE REPORT FOR AMHERST:



The 13 indicators in the report are color coded to indicate overall risk level (low risk is green, moderate risk is yellow and high risk is red).

As it has in the past, the Town of Amherst scored well in the most recent report. It received 11 green indicators, and two red indicators.

The report highlighted Amherst's successes in the areas of liquidity, prudent debt levels, strong operating reserves, effective tax collection and asset management.

It also provided the town with comments on possible improvements in the areas of building capital reserves and in budget accuracy, although it is important to note that the town has not recorded any deficit in the past five years.

Conversations are currently on-going with the Department of Municipal affairs regarding the scoring of the budget accuracy. One would expect the red would indicate there are areas of concern for the municipality. However, for the Town of Amherst, we have been showing surpluses the last few years which mostly resulted from vacant staff positions. These surpluses have been used to pay for capital investments which would have been funded by borrowing, which saves the Town interest costs associated with borrowing. Rather than indicating a concern for the Town, this would indicate prudent financial management.

Part of the Town of Amherst's success is due to the strong management around finances. For example, the Town maintains and updates 10-year operating projections and a 10-year capital investment plan. This allows for planning and the ability to take advantage of funding from other levels of government when it becomes available.

Other items of Note:

1. Last year there was only 4.3% of annual taxes outstanding; and
2. Healthy operating reserves

The other "red" indicator relates to combined reserves. This can be better understood when considering the approach to infrastructure investments and related funding. The town follows a strategy of planning for capital investment on a long-term basis, using current year resources (capital from revenue) and the gas tax as the major funding sources. Then when funding from other levels of government becomes available, capital investments are funded using a combination of that funding and a prudent amount of debt, with the term matching the useful life of the assets being put in place.

By following this strategy, the town minimizes the use of the capital reserve and therefore the funding of the reserve as well. Although the combined reserves are less than the threshold, the strategy used by the Town is a sound one and has been implemented in an informed and intentional manner that has allowed for updated infrastructure at minimal cost to the town.

CONCLUSION

The results for Amherst are very positive and are indicative of the efforts of staff and the management team with the support of council to implement the strategies necessary to ensure the strong financial condition and health of the Town over the long term.

We will update the audit committee regarding our conversations with the Department of Municipal Affairs.