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# Financial Indicators in Plain Language St. Charles Council Meeting

January 25<sup>th</sup>, 2017

# Important Notice

- Municipalities are responsible for making local decisions, including compliance with any applicable statutes or regulations.
- This presentation is for information only and is not a substitute for legal, financial or other professional advice in connection with any particular matter. This presentation deals with complicated issues and concepts in a highly summarized fashion, and key details may not be included. Users should verify this information from other sources prior to making decisions or acting upon it.

# Outline

- Background
  - Financial Reporting
  - Financial Information Review
- 7 Financial Indicators

# Financial Reporting to the Public

## **For Municipalities:**

- Audited Financial Statements
- Financial Information Return (FIR)
- Municipal Performance Measurement Program

# Financial Information Return (FIR)

*The FIR is an invaluable resource for both the province and the municipality*

- The province uses it for many purposes including:
  - calculating grant amounts,
  - developing policy
  - monitoring the financial status of municipalities
  - preparing municipal debt limit reports
  - requests for financial and statistical data

# Financial Information Return (FIR)

From a municipal perspective, the FIR is an integral tool with many applications including:

- Preparation of year over year comparisons, trend analysis, forecasting
- Performance measurement and for comparative purposes with other like municipalities on key indicators (for example, debt and reserve levels)
- Supporting land use planning, strategic planning, and asset management planning

<https://efis.fma.csc.gov.on.ca/fir/>

# Financial Indicator Review

- On an annual basis assess certain financial indicators regarding a municipality.
- 7 indicators are produced from data points in the FIR.
- Shared with the municipality and analyzed by the Ministry of Municipal Affairs and Housing for trends.
- Financial Indicator Review results are provided to municipalities for information purposes – they should not be looked at in isolation, and are not a substitute for financial or other professional advice in connection with any particular matter.

# 7 Financial Indicators

1. Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees
2. Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses
3. Debt Servicing Cost as a % of Total Operating Revenue
4. Total Taxes Receivable less Allowance for Uncollectables as a % of Total Taxes Levied
5. Total Cash and Cash Equivalents as a % of Operating Expenses
6. Net Working Capital as a % of Total Municipal Operating Expenses
7. Asset Consumption Ratio



# FINANCIAL INDICATOR REVIEW

(Based on 2015 Financial Information Return)

## Municipality

Date Prepared:   
 MSO Office:   
 Prepared By:

Tier:   
 MAH Code:   
 MUNID:   
 REV Code:

## FINANCIAL INDICATORS

Indicator	Ranges	Actuals	South - LT - Counties - Rural		Level of Challenge
			Median	Average	
Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees	Low: > -50% Mod: -50% to -100% High: < -100%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses	Low: > 20% Mod: 10% to 20% High: < 10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
Debt Servicing Cost as a % of Total Operating Revenue	Low: < 5% Mod: 5% to 10% High: > 10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Taxes Receivable less Allowance for Uncollectables as a % of Total Taxes Levied	Low: < 10% Mod: 10% to 15% High: > 15%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Cash and Cash Equivalents as a % of Operating Expenses	Low: > 10% Mod: 5% to 10% High: < 5%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
Net Working Capital as a % of Total Municipal Operating Expenses	Low: > 10% Mod: 10% to -10% High: < -10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>
* Asset Consumption Ratio	Low: < 25% Mod: 26% to 75% High: > 75%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2014	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2015	<input type="text"/>	<input type="text"/>	<input type="text"/>

# 1. Net Assets or Net Debt ÷ (Own Purpose Taxation + User Fees)

- **Net Assets or Net Debt** = Assets - Debt
- **Own Purpose Taxation + User Fees** = Tax dollars the municipality collects for its own purposes + user fees and charges (e.g. garbage, water, recreation); the revenue tools a municipality can control.
- **What might it indicate**: How much tax and fee revenue is servicing debt.

Potential Level of Challenge		
Low	Moderate	High
More than -50%	-50 to -100%	Less than -100%

## 2. Reserves ÷ Operating Expenses

- **Reserves** = Net revenue set aside by Council for future needs.
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate:** How much money is set aside for future needs/contingencies.

Potential Level of Challenge		
Low	Moderate	High
More than 20%	10 to 20%	Less than 10%

### 3. Debt Servicing Cost ÷ Operating Revenue

- **Debt Servicing Cost** = payments on debt.
- **Operating Revenue** = taxes, payments-in-lieu, grants, fees, rent, fines, income on investment or on property sale.
- **What might it indicate:** How much of each dollar raised is spent on debt.

Potential Level of Challenge		
Low	Moderate	High
Less than 5%	5 to 10%	More than 10%

## 4. Tax Arrears

- **Taxes Arrears** = Outstanding taxes owed to the municipality.
- **What might it indicate**: High percentage may indicate collection problems or taxpayers' inability to pay.

Potential Level of Challenge		
Low	Moderate	High
Less than 10%	10 to 15%	More than 15%

## 5. (Total Cash + Cash Equivalents) ÷ Operating Expenses

- **Total Cash + Temporary Investments** = A measure of money that the municipality can access on short notice (liquidity).
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate**: High percent indicates ability to cover payments or unexpected costs on short notice.

Potential Level of Challenge		
Low	Moderate	High
More than 10%	5 to 10%	Less than 5%

## 6. Net Working Capital ÷ Operating Expenses

- **Net Working Capital** = cash, accounts receivable, taxes receivable, inventories, and prepaid expenses minus temporary loans, accounts payable; measure of liquidity.
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate**: Higher percent may indicate sufficient working capital to meet its short-term obligations.

Potential Level of Challenge		
Low	Moderate	High
More than 10%	10 to -10%	Less than -10%

## 7. Asset Consumption Ratio

- **Closing Amortization Balance ÷ Closing Cost Balance** as reported on Schedule 51A of the FIR
- **What might it indicate**: Measures the age of a municipality's physical assets. It measures the extent to which depreciable assets have been consumed by comparing the amount of the assets that have been used up versus their cost.

Potential Level of Challenge		
Low	Moderate	High
Less than 25%	25 to 75%	More than 75%



# Conclusion

- Financial Information Reviews, as provided to municipalities, are prepared from the previous year's FIR.
- Consist of 7 indicators of financial challenge.
- Provides valuable information as part of ongoing provincial/municipal dialogue.

# Questions?

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