

# Financial Indicators - 2023 (2022 Year End)

*Township of Rideau Lakes Council  
May 27, 2024*

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# Disclaimer

- 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 Return
- Financial Indicators
  - Tools for consideration
- Questions

# Financial Reporting to the Public

- For Municipalities:
  - Audited Financial Statements
  - 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
      - formulating policy
      - monitoring the financial condition 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
  - Link to FIRs website: [About The Financial Information Return - Financial Information Return \(gov.on.ca\)](https://www.gov.on.ca/finance/fir/)

# Financial Indicator Thresholds (FITs)

- On an annual basis the Ministry calculates and reviews select financial indicators for each municipality
- 7 indicators are produced from data points in the FIR
- Indicators are shared with the municipality to facilitate dialogue on financial management practices
- FITs Review results are provided to municipalities for information purposes
- Indicators should not be looked at in isolation, and are not a substitute for financial or other professional advice in connection with any particular matter

# Statistical Information

- The top portion of the template includes the following macro-economic information:
  - Households and Population
  - Median Household Income
  - Own Purpose Taxation
  - Average Annual Change in Assessment
  - Taxable Residential Assessment as a % of Total Taxable Assessment
  - Municipal Fiscal Circumstances Index (MFCI)

# Indicators

1. Tax Arrears
2. Net Financial Assets (Net Debt)
3. Reserves Funds
4. Cash Ratio
5. Debt Servicing
6. Asset Consumption Ratio
7. Annual Surplus (Deficit)



# 1. Tax Arrears

$$\left( \frac{\text{Total Taxes Receivable Less Allowance for Uncollectables}}{\text{Total Taxes Levied}} \right)$$

- **Taxes Receivable (Tax Arrears):**  
Outstanding taxes owed to the municipality
- **What might it indicate:** High percentage may indicate collection problems or taxpayers' inability to pay
- **Considerations to Reduce Tax Arrears:**
  - Review tax collection policy
  - Increase billing options
  - Review tax sales process
  - Assess adequacy of allowance for uncollectible

- **Risk Level:**

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

# 2. Net Financial Assets (Net Debt)

$$\left( \frac{\text{Net Financial Assets or Net Debt}}{\text{Own Source Revenues}} \right)$$

- **Net Assets or Net Debt:** Financial Assets - Debt
- **Own Source Revenues:** Total Revenues minus those from conditional and unconditional grants, other municipalities, sale of lands and Tangible Capital Assets (TCAs), deferred revenues and donations (including donated TCAs)
- **What might it indicate:** How much tax and fee revenue exists in relation to debt
- **Considerations to Reduce Net Debt:**
  - Review tax effort
  - Earmark part of levy to help raise funds
  - Complete a service delivery review
  - Include parameters for long term debt
  - Ensure compliance with legislation and debt practices

- **Risk Level:**

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

# 3. Reserve Funds

$$\left( \frac{\text{Reserves and Discretionary Reserve Funds}}{\text{Municipal Expenses}} \right)$$

- **Reserves and Discretionary Reserve Funds:** Funds 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
- **Risk Level:**
- **Considerations to Increase Reserve Levels:**
  - Adopt reserve/reserve fund policy
  - Review target levels to determine if adequate (if policy exists)
  - Earmark part of levy specifically for reserves
  - Request MMAH provide education and training to council

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

# 4. Cash Ratio

$$\left( \frac{\text{Cash and Cash Equivalents}}{\text{Total Current Liabilities}} \right)$$

- **Cash and Cash Equivalents:** Cash and short-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value (Cash Equivalents).
- **Current Liabilities:** Accounts Payable, Tax Liabilities, Temporary Loans for Operating Purposes
- **What might it indicate:** High ratio indicates better ability to cover payments or unexpected costs on short notice
- **Considerations to Improve Level of Cash/Cash Equivalents:**
  - Adopt a cash management policy
  - Review number and timing of instalment dates
  - Review timing of accounts payable
  - Consider timing of grants claims being submitted
  - Request MMAH present Revenue Tools presentation

- **Risk Level:**

Potential Risk Level		
Low	Moderate	High
Greater than 50%	50% to 25%	Less than 25%

# 5. Debt Servicing

$$\left( \frac{\text{Debt Servicing Cost (Principle and Interest)}}{\text{Total Revenues (Less Donated TCAs)}} \right)$$

- **Debt Servicing Cost:** payments on debt.
  - **Total Revenues:** as reported on Schedule 10 (e.g. taxes, payments-in-lieu, grants, fees, rent, fines, income on investment) less donated tangible capital assets.
  - **What might it indicate:** How much of each dollar raised is spent on debt.
  - **Risk Level:**
- **Considerations to Reduce Debt Servicing Cost:**
    - Renegotiate loan terms
    - Review tax effort
    - Complete a service delivery review
    - Review target levels
    - Seek auditor financial advice related to debt levels
    - Request MMAH provide education and training to council

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

# 6. Asset Consumption

$$\left( \frac{\text{Closing Amortization Balance}}{\text{Total Cost of Capital Assets}} \right)$$

- **Closing Amortization Balance ÷ Total Cost of Capital Assets**: as reported on Schedule 51A of the FIR
- **Closing Amortization Balance**: Sum of amortization expense in current and previous years (also known as Accumulated Amortization)
- **Total Cost of Capital Assets**: Historical cost to acquire, construct or better a tangible capital asset; includes cost of land
- **What might it indicate**: Measures the proportion of a municipality's physical assets that are used up and no longer functional
- **Risk Level**:

## **Considerations to improve Asset Consumption Ratio**:

- Review asset management policies
- Review service levels to assess if service is adequate/required
- Consider earmarking part of a levy to help raise revenue for asset replacement
- Request MMAH provide education and training to council

Potential Risk Level		
Low	Moderate	High
Less than 50%	50 to 75%	More than 75%

# 7. Annual Surplus (Deficit)

$$\left( \frac{\text{Annual Surplus / (Deficit)}}{\text{Own Source Revenues}} \right)$$

- **Annual Surplus/Deficit:** Operating Revenue less Operating Expenses; positive is surplus and negative is deficit.
- **Operating Revenue:** Revenue collected to meet current expenditures.
- **Operating Expenses:** day-to-day cost needs of the municipality.
- **Own Source Revenues:** as reported on Schedule 10 (e.g. taxes, payments-in-lieu, grants, fees, rent, fines, income on investment) less donated tangible capital assets.
- **What might it indicate:** Ability to cover operational costs and have funds available for other purposes (i.e. reserves, debt repayment, etc.)
- **Risk Level:**
- **Considerations to improve Operating Surplus Ratio:**
  - Examine user fees to determine if they are covering costs
  - Develop a Surplus Management Policy
  - Review tax effort
  - Explore additional revenue tools
  - Complete a service delivery review

Potential Risk Level		
Low	Moderate	High
Greater than/Equal to -1%	Between -1% to -30%	Less than -30%

**Questions**



# For Further Information

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Financial Information Return:

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