

# 13 MUNICIPAL FINANCE CORPORATION

## BACKGROUND

- 13.1** The Nova Scotia Municipal Finance Corporation (MFC) was established by statute in 1979 to borrow money on the open markets and provide loans to municipalities, municipal enterprises, school boards and hospitals. The central borrowing authority concept is widely used in Canada and the United States as a cost effective, efficient means of raising long-term debenture funds to finance municipal and other public capital projects. Studies have shown that smaller municipalities with lower credit ratings receive the greatest interest savings and all municipalities may benefit from savings in the cost of administering debenture issues.
- 13.2** The Corporation's purpose is to provide low cost financing to its clients. All borrowing by municipalities, municipal enterprises and Regional School Boards in Nova Scotia must flow through the Corporation. Permitted exceptions include capital projects funded directly by the Province (e.g., school construction), short-term financing, and certain projects for which funds may be borrowed from other governments. As well, District Health Authorities may finance hospital capital projects through MFC if they wish to do so. The Corporation offers several programs, including debenture financing, short-term loans and bridge financing.
- 13.3** As of March 31, 2002 MFC administered \$500 million of assets and a similar amount of liabilities. Approximately 50% of all loans are to Halifax Regional Municipality (Exhibit 13.2). All loans are approved or guaranteed by the related municipal council, with the exception of certain loans to Halifax Regional Water Commission. Debentures issued by the Corporation are guaranteed by the Province. All outstanding debentures of the Corporation are in Canadian funds and many have been bought by the Province. The Corporation's approved borrowing requirement for 2002-03 was \$100 million and its administrative budget was \$289,425.
- 13.4** The Corporation is governed by a five-member Board of Directors appointed by Executive Council. Two of the members (40%) are appointed on the recommendation of the Union of Nova Scotia Municipalities. The Corporation has three staff members and is supported by staff and resources of the Provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.
- 13.5** The annual financial statements of the Corporation are audited by a public accounting firm. This is our second audit of the Nova Scotia Municipal Finance Corporation. We reviewed the operations of the Corporation in 1987 and presented the audit in that year's Report of the Auditor General.

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## RESULTS IN BRIEF

- 13.6** The following are our principal observations from this audit.
- The Corporation is complying with its reporting requirements and is providing timely information to the Minister.
  - The Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, but the 2001-02 report was available in the Legislative Library.
  - We recommended that the Corporation report progress related to its main objective of providing funds at the lowest possible cost.
  - The Corporation is complying with requirements of the Municipal Finance Corporation Act and Provincial Finance Act.
  - The Corporation has a timely budget process and cash flow projections are prepared on a regular basis. The Corporation prepares monthly financial reports and submits them to the Board of Directors and the Department of Finance.

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## AUDIT SCOPE

- 13.7** In February 2003 we completed a broad scope audit of the Nova Scotia Municipal Finance Corporation in accordance with Sections 8 and 15 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included all tests and other procedures we considered necessary in the circumstances.
- 13.8** The objectives of this assignment were to review and assess:
- quality and timeliness of reporting to the Minister responsible for the Corporation and the House of Assembly;
  - compliance with Provincial legislation and regulations; and
  - planning, monitoring and control of the financial operations of the Corporation.
- 13.9** Audit criteria were developed to assist in the planning and performance of the audit. The criteria were discussed with and accepted as appropriate by the Corporation. The criteria are described in Exhibit 13.1. As part of this assignment, we interviewed the staff of the Corporation, as well as staff of the Departments of Service Nova Scotia and Municipal Relations and Finance. We also examined minutes, financial statements, internal and external reports and many other documents related to the Corporation.

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## PRINCIPAL FINDINGS

### Accountability

- 13.10** We examined reporting by Municipal Finance Corporation and assessed it against specified accountability requirements and other expectations for quality performance reporting.
- 13.11** **Accountability requirements** - The Corporation's accountability and reporting requirements are defined in the Municipal Finance Corporation Act and the Provincial Finance Act. The Corporation's Act requires that an annual estimate of administration expenditures be presented to the Minister each year. The Corporation must also present its year-end financial statements and Auditor's Report to the Minister of Service Nova Scotia and Municipal Relations, the Minister of Finance, and the clerk of each municipality in Nova Scotia.
- 13.12** The Provincial Finance Act defines the Corporation as a government service organization and requires year-end financial statements to be submitted to the Minister of Finance by June 30 following the year end, and financial statements to be tabled in the House of Assembly. In addition, the Provincial Finance Act requires the Corporation to submit its business plan and any proposed public financing to the House of Assembly.
- 13.13** We concluded that the Corporation is complying with its reporting requirements and is providing information in a timely and complete manner. We observed the following accountability-related matters.
- Financial statements are prepared, reviewed by the Board of Directors and sent to the Department of Finance each month.
  - The 2002-03 administrative budget was sent to the Minister and received approval in December 2001.
  - The 2002-03 estimated annual borrowing requirement was approved by the Board of Directors and received Executive Council approval before March 31, 2002, and was included in the 2002-03 business plan tabled in the House of Assembly.
  - The 2002-03 business plan was approved by the Board of Directors and the Minister before December 31, 2001, and summarized in a compilation of government business plans tabled in the House of Assembly.
  - The 2001-02 Annual Report, including audited financial statements, was sent to Minister of Service Nova Scotia and Municipal Relations and the Minister of Finance in August 2002. The audited financial statements were included in Volume 2 of the 2001-02 Public Accounts tabled in the House of Assembly.
  - The Corporation's financial statements, Annual Report, business plan and other information are available on its Internet website.

- 13.14 However, we found that the Corporation's 2000-01 and 2001-02 Annual Reports were not tabled in the House of Assembly, though the 2001-02 Report is available in the Legislative Library.

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#### **Recommendation 13.1**

We recommend that the Corporation's Annual Reports be tabled in the House of Assembly on a timely basis.

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- 13.15 **Performance reporting** - The Corporation prepares an annual business plan which is consolidated with other Provincial department and agency plans and presented to the House of Assembly by government. The Corporation's 2002-03 plan included information on its mission, mandate, strategic goals, core business areas, priorities, prior year's performance, as well as outcomes and outcome measures. Much of the information presented in MFC's annual business plan is also included in its Annual Report.

- 13.16 The Corporation's mission is "to utilize credit enhancement and debt pooling techniques to meet clients' approved funding requirements at the lowest possible cost." The Corporation's first strategic goal, first core business area, first priority and first defined outcome include providing financing at the lowest cost of funds. However, we did not find anything in the Corporation's business plan or Annual Report describing specifically whether the Corporation has had success in providing funds to its clients at the lowest possible cost.

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#### **Recommendation 13.2**

We recommend that the Corporation report on its achievements related to the goal and priority of providing funds at the lowest possible cost.

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### **Compliance with Legislation**

- 13.17 The Corporation was created by the Municipal Finance Corporation Act in 1979. Since it is a corporation created by statute, it has no memorandum of association or articles of incorporation. The Act notes the object of the Corporation is "to provide financial assistance for municipalities, municipal enterprises and hospitals through a central borrowing authority." For purposes of the Act, school boards are defined as municipal enterprises.
- 13.18 We reviewed the Corporation's Act and the Provincial Finance Act and concluded that the Corporation is complying with the requirements of these pieces of legislation. We noted that the Corporation's general counsel is also counsel for the Department of Finance which helps ensure the Corporation complies with all legislated and contractual requirements.

- 13.19** The Corporation’s business plan states “Under current provincial policy, the Corporation funds municipal and municipal enterprise capital projects and some school board projects.” During our review of Board of Directors minutes for the last three years we noted discussion and approval of other policies. However, there is generally no documentation of such policies outside of the minutes and the Corporation mainly relies on the memory of Directors and staff.

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### **Recommendation 13.3**

We recommend that all policies related to the Corporation be documented and accumulated in a comprehensive reference source.

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## **Financial Management**

- 13.20** We examined a number of areas related to financial management. Our findings are reported in the following paragraphs.
- 13.21** **Business planning** - The Corporation prepared a business plan for the 2002-03 fiscal year at the request of government’s Treasury and Policy Board. The plan was approved by the Corporation’s Board of Directors and the Minister, and submitted to Treasury and Policy Board as requested. The business plan documents the Corporation’s goals, objectives, performance measures and outcomes, as well as its priorities for the coming fiscal year, and generally complies with guidelines provided. We observed, however, that some information in the business plan needs to be updated for current practices. For example, the plan indicates that “an annual assessment of markets, debentures, loans and corporate activity” is a priority and also discusses this matter under 2001-02 performance, but the annual assessment is no longer prepared.

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### **Recommendation 13.4**

We recommend the business plan be updated to reflect the current practices of the Corporation.

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- 13.22** **Cash flow analysis** - Cash flow projections are prepared by the Corporation on a regular basis. The projections include both short-term analysis (one year) and longer-term analysis spanning the length of debenture issues. Both the short and long-term cash flow analysis include all scheduled debt repayment as well as all other significant sources and uses of cash. The analysis prepared by the Corporation is sufficient to enable decision making for annual and longer-term plans.
- 13.23** **Budgeting** - The Corporation has a timely budget process. In early December 2001, the Board of Directors approved the Corporation’s administration budget

for the next fiscal year. The 2002-03 budget was submitted to and approved by the Minister of Service Nova Scotia and Municipal Relations in December 2001

- 13.24** The Corporation also prepares a budget of the expected funding needs (i.e., borrowing and lending) for the next fiscal year. The 2002-03 financing budget was approved by the Board of Directors in February 2002 and approved by Executive Council on March 1, 2002.
- 13.25** **Financial reporting** - The Corporation prepares monthly financial reports on a timely basis and submits them to the Board of Directors for review and approval. After approval, the reports are sent to the Department of Finance for use in preparing consolidated financial reports for the Province. The Corporation's year-end financial statements are audited and submitted to the Minister of Service Nova Scotia and Municipal Relations. There are regular Board of Directors' meetings and quarterly meetings with the Minister to discuss the Corporation's financial performance.
- 13.26** **Creditworthiness analysis** - Municipalities determine their capital financing needs and send funding requests and municipal council Temporary Borrowing Resolutions to the Corporation. The Corporation summarizes the funding requirements and forwards the information to the Municipal Services Division of the Department of Service Nova Scotia and Municipal Relations. The Department reviews each funding request, calculates a debt service ratio for each municipality, ensures each request is for an acceptable purpose, and submits recommendations to the Minister for approval. MFC relies on the analysis and recommendations of Department staff to determine the creditworthiness of municipalities and municipal enterprises.
- 13.27** We examined the Corporation's experience with respect to the payment of current and past loans by its clients. Per discussions with management, loan payment history has been excellent. In the last several years, there has been only one late payment on a loan. All subsequent payments from that client have been made on time.
- 13.28** A committee of staff from the Department and MFC was convened to review and revise the creditworthiness process. There were no committee minutes available for our review. However, we were informed that there had been three meetings to the date of our audit and the committee's draft report on alternative approaches to the municipal borrowing process was being reviewed by Department senior management.
- 13.29** **Audit recommendations** - The Corporation implemented business process changes recommended by its external auditor in past years. There were no recommendations resulting from the 2002 financial statement audit. Our 1987 audit recommended that the Corporation reassess the need for its Reserve Fund, computerize the debenture and loan functions, and amend the Municipal Finance Corporation Act to permit charging of administrative costs not paid by the

Province to the Reserve Fund and/or municipalities, hospitals and school boards. Each recommendation was implemented by the Corporation.

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## CONCLUDING REMARKS

- 13.30** Nova Scotia Municipal Finance Corporation is accountable to its Minister and the House of Assembly, and meets all of its legislated accountability requirements. We recommended formal tabling of the Corporation's Annual Report in the House of Assembly each year.
- 13.31** We concluded that the Corporation complies with requirements of Provincial legislation and regulations. We also believe there is appropriate planning, monitoring and control over the Corporation's financial operations.
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## Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the Nova Scotia Municipal Finance Corporation.

- Reporting to the government and Minister should be timely. The Annual Report of the Corporation should be tabled in the House of Assembly on a timely basis. Accountability reporting should adequately address all significant areas of corporate responsibility and performance. There should be adequate systems to ensure the accuracy and completeness of information reported.
- Management should be aware of all legislation, regulations and agreements which apply to the Corporation. The Corporation should comply with all applicable legislation, regulations and agreements. Management should monitor the Corporation's compliance with legislation, regulations and agreements.
- There should be adequate planning and budgeting for the financial requirements of the Corporation. There should be regular and timely monitoring of financial performance. There should be adequate control over the assets, liabilities, revenues and expenditures of the Corporation.



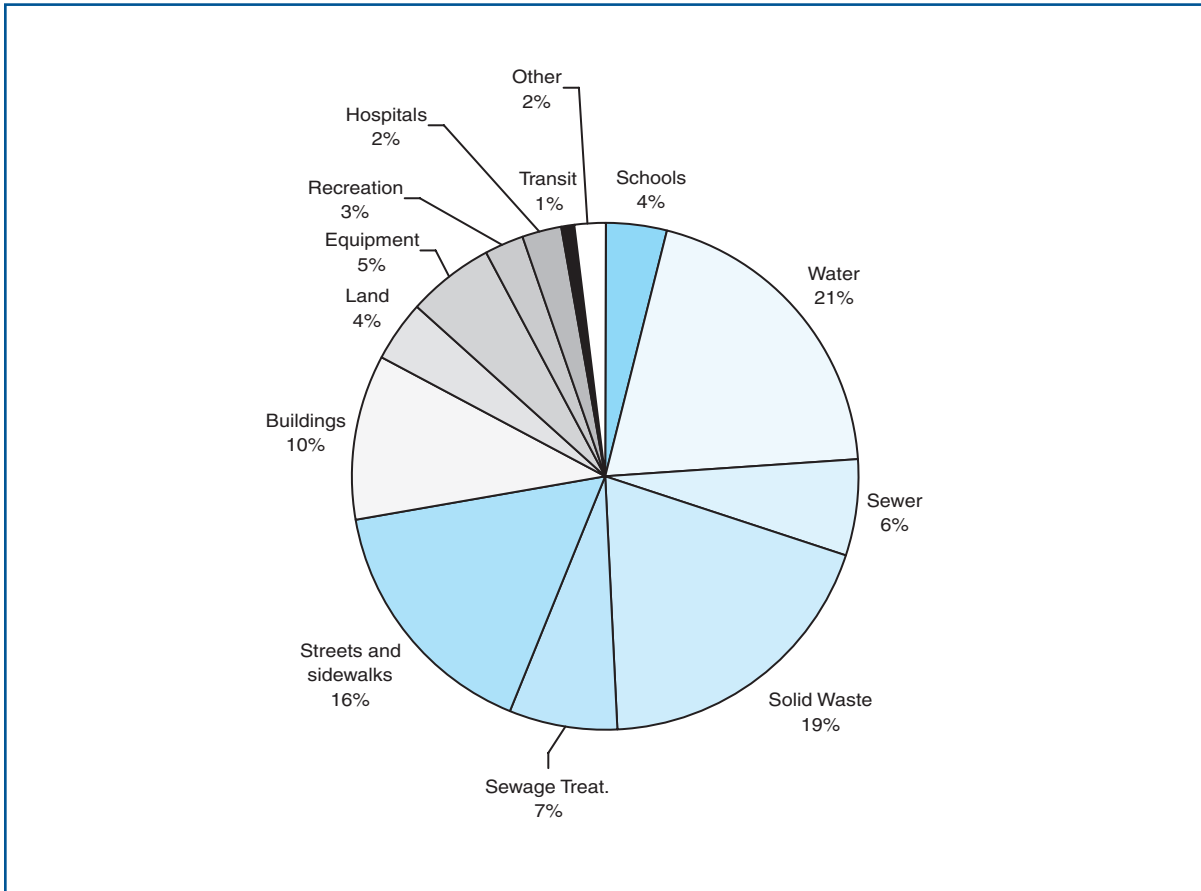
## Outstanding Loans Over \$5 Million - As at March 31, 2002

Regional Municipalities	
Halifax	\$ 243,514,556
Cape Breton	19,612,764
Under \$5 million	3,498,599
Total Regional Municipalities	266,625,919
Towns	
New Glasgow	6,039,992
Under \$5 million	41,641,619
Total Towns	47,681,611
Other Municipalities	
Annapolis County	5,573,354
Colchester County	21,150,165
Kings County	9,591,091
Under \$5 million	25,999,227
Total Other Municipalities	62,313,837
Municipal Enterprises	
Halifax Regional Water Commission	66,291,500
Under \$5 million	9,280,462
Total Municipal Enterprises	75,571,962
Province of Nova Scotia	29,605,681
Total Loans	\$ 481,799,010

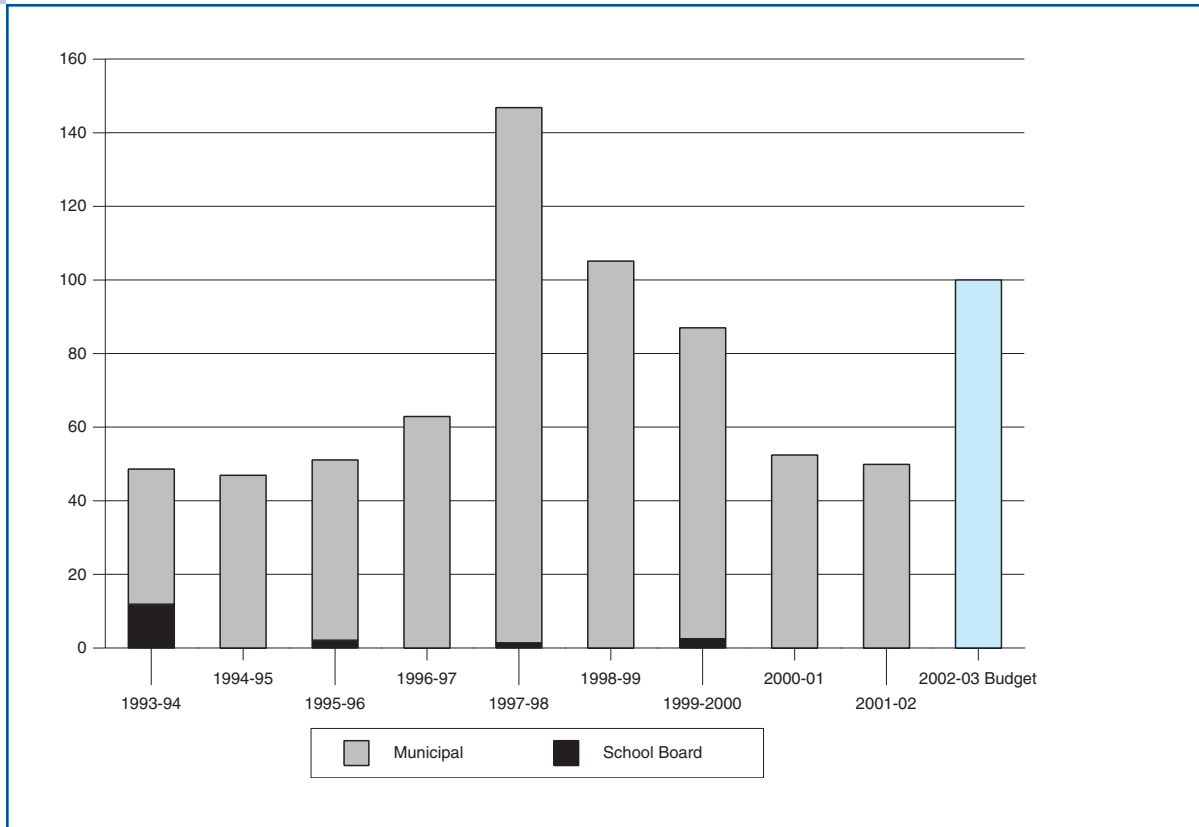
Information in this exhibit was obtained from the 2002 Annual Report of the Nova Scotia Municipal Finance Corporation. The Report contains details of all loans outstanding as at March 31, 2002.

## Outstanding Loans By Purpose - As at March 31, 2002

Exhibit 13.3



### Long-term Loans Made During Year - As at March 31 (\$ Millions)



Information in this exhibit was obtained from the 2002 Annual Report of the Nova Scotia Municipal Finance Corporation.