

Department of Municipal Affairs

3.2.20 Debt Relief Program (2003 Annual Report, Part 2.30)

Introduction

In 2003, we performed a review of the Debt Relief Program at the then Department of Municipal and Provincial Affairs. As at July 2003, Government had allocated approximately \$47.0 million in Program funding to 75 municipalities and non-financial assistance had been provided to 52 municipalities. The objectives of our review were to:

- assess the Department's progress in addressing the financial problems of the Province's municipalities;
 - determine whether Program Guidelines were in place and being complied with; and
 - determine whether the Program was adequately monitored and reported.
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Conclusions from our 2003 review

As a result of our review, we concluded the following:

- In 1997 the Department estimated there were 170 municipalities which should be reviewed to determine whether they required assistance under the Debt Relief Program. The Department targeted municipalities which spent 30% or more of their municipal operating grant and tax revenues on debt servicing costs. In May 1999, the Department estimated that it would complete its review of the 170 affected municipalities by 31 March 2000.

As of July 2003, 39 months after the Department's target date of 31 March 2000 to prepare a plan and provide the necessary assistance for the estimated 170 municipalities, only 114 of the 141 municipalities meeting the 30% debt servicing cost to revenue ratio identified in 1997 had been reviewed and assisted. Of the remaining 27 municipalities in this category, 22 had reviews at various stages of completion while 5 had not been reviewed. However, 13 municipalities were reviewed and assisted even

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though they did not meet the 30% debt servicing cost to revenue ratio. Of these 13 municipalities, 6 received financial assistance while 7 received non-financial assistance. Three of the 6 municipalities which received financial assistance still had a debt servicing cost to revenue ratio of less than 30% when they received assistance.

- Program Guidelines indicated that debt servicing cost to revenue ratios would be the basis for targeting municipalities for review. Although the Department determined the debt servicing cost to revenue ratios in 1997 to identify which municipalities would be reviewed for assistance under the Program, this information had not been updated since that time. Instead, the Department concentrated on Newfoundland and Labrador Municipal Financing Corporation (NLMFC) arrears and requests from municipalities seeking assistance. As a result, the Department had not identified which municipalities met the debt servicing cost to revenue criterion necessary to prioritize reviews and determine eligibility for assistance.
 - Although reviews in progress in July 2003 had identified that the municipalities would require debt relief funding of approximately \$9 million, there was no Program funding in the approved 2003-04 budget. Furthermore, a request for more funding for 2003-04 to continue the Debt Relief Program was deferred by Treasury Board.
 - Although Program Guidelines provided for an action plan that would permit the municipality to maintain stability in its financial affairs, the financial analysis and resulting agreements with municipalities did not address future capital works and funding requirements. As a result, there may have been issues relating to future financial stability.
 - Monitoring and reporting was inadequate in that inspection targets were not established, annual inspections were not performed subsequent to the assistance being provided, action plans addressing non-compliance with agreements were not being prepared, and quarterly reports outlining the status of instances of non-compliance, were not being provided to the Assistant Deputy Minister.
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Update

In October 2005, we contacted the Department of Municipal Affairs requesting an update as to the progress on the comments and recommendation included in our 2003 report. The information provided by the Department in response to our request is outlined below.

2003 Recommendation

The Department should ensure that the Debt Relief Program is administered in accordance with Program Guidelines and that progress towards program objectives is monitored and reported.

Action Taken

The Department indicated that it makes every effort to comply with the guidelines, that the Program is in its final stages and that the objectives have been met. It further indicated that it is currently reviewing its monitoring process to determine the level of scrutiny needed on an ongoing basis and is considering alternative methods that can be used to continue to achieve the desired results.

Since 1997, the Department has worked with 155 financially challenged municipalities across the Province to improve their financial positions, and in a number of cases has assisted them financially to restructure their long-term debt and improve taxing capacity. It has initiated a monitoring program to ensure that municipalities which have received debt relief assistance stay on track by meeting their required debt payments. The Department also indicated that while staffing issues continue to cause some concern, regional staff are very familiar with municipalities within their jurisdictions and are therefore able to deal with non-compliance issues on a timely basis.

The Department indicated that for those municipalities that do not comply with the Debt Relief Agreements, operating grants will be intercepted, capital works applications will not be entertained and approvals will not be given for capital purchases. Except in emergency situations, those municipalities will not be eligible for any financial support from the Department. Also, municipalities are now required to raise funds for capital borrowing through private lending institutions.
