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REPORT
Meeting Date: 2021-05-13
Regional Council

REPORT TITLE:	**2020 Operating Financial Triannual Performance Report – Year End (Unaudited)**
FROM:	Julie Pittini, Acting Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the 2020 surplus of $15,846,970 from tax supported Region Controlled services be used to reduce the amount of debt financing required for the Waste Management – Anaerobic Digestion Facility (Capital Project #16-6330);

And further, that the surplus of $186,866 from Municipal Property Assessment Corporation be allocated to the Assessment Services Stabilization reserve;

And further, that the contribution of the 2020 surplus of $3,065,057 from utility rate supported services to the Utility Rate Stabilization reserve be approved.

REPORT HIGHLIGHTS

- Regional Council approved the 2020 Operating Budget of $2.6 billion to enable the Region of Peel (Region) to continue delivering services and meet the service needs of the residents, taxpayers, and the service demands of a growing community.
- Overall, after Safe Restart Funding, the Region has a surplus of $19.1 million or variance of 1.2 per cent, which is within the budget accuracy target range of plus or minus 3 per cent.
- Tax Supported Services ended the year with a surplus of $16.0 million after the application of Safe Restart funding, $15.8 million for Regionally Controlled Tax Services and $0.2 million for Regionally Financed External Organizations.
- The overall tax surplus represents a variance to budget of 1.4 per cent, within the budget accuracy target of plus or minus three per cent.
- Staff recommend that the surplus of $15.8 million from tax supported Region controlled services be used to reduce the amount of debt financing required for the anaerobic digestion facility in the Waste Management service to reduce the pressure on future operating budgets
- Utility Rate Supported Services ended the year with a surplus of $3.1 million, or a variance to budget of 0.7 per cent.
- Staff recommend that the surplus of $3.1 million from utility rate supported services be allocated to the Utility Rate Stabilization to provide greater flexibility to mitigate revenue risk due to volatility from water consumption.
- Unused funding of $30.9 million from the Safe Restart program will be used to help fund COVID-related costs and pressures in the 2021 Budget.
- A companion capital performance report for 2020 will be provided to Regional Council to provide analytics on the capital program.

2020 Operating Financial Triannual Performance Report – Year End (Unaudited)

DISCUSSION

1. Background

On December 19, 2019, Regional Council approved $3.7 billion through the 2020 Budget, including $2.6 billion in operating funding for Regional services and a $1.1 billion capital investment in Peel's infrastructure.

The approved 2020 Operating Budget of $2.6 billion includes $0.5 billion to the Region's externally financed agencies: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities. The budget provides the Region with the funding to support community needs through services under three areas of focus: Living, Thriving and Leading. Highlights of the Region's 2020 service levels supporting each of the three areas of focus are listed in Appendix I.

The Region's operating budget is developed based on the best information available during budget preparation. Budget assumptions are modeled and projected for drivers such as social assistance caseload, 9-1-1 call volumes, winter events and water consumption. Risks are identified and mitigated where reasonably possible, including the use of rate stabilization reserves to address volatility in weather conditions, economic cycles and one-time initiatives or to minimize the impact on the Tax and Utility ratepayers. The risks and assumptions used to develop the 2020 Budget did not reflect the possibility of a global pandemic and its impact on the Region's services and finances.

The Budget Policy requires that staff report the financial status of the organization at a minimum of twice annually. This report provides the third and final update on the financial results of the 2020 Operating Budget as at December 31, 2020 and highlights the impacts of the COVID-19 pandemic on overall operations including external funding that was provided to help mitigate the pressures from COVID-19.

2. Operating Results

The Region's operating performance includes both Tax Supported Services and Utility Rate Supported Services. For 2020, both tax and utility rate supported operations were impacted by COVID-19. Many of the services experienced increased costs and/or decreased revenue due to COVID. However, program-specific funding was provided by the provincial and federal governments that helped to mitigate these pressures. Broader level funding was also provided through the Safe Restart Agreements to address any remaining service pressures not addressed through program-specific funding.

As outlined in Table 1 below, prior to applying Safe Restart funding, the overall year end surplus position of $2.2 million is a combined result of a negative budget variance of $0.7 million for Tax Supported Services and a positive budget variance of $2.9 million for Utility Rate Supported Services.

After the allocation of $16.9 million of Safe Restart funding to eligible COVID-related costs and pressures, the overall year end position was a surplus of $19.1 million or a variance to budget of 1.2 per cent. $16.7 million was allocated to Tax Supported programs and $0.2 million was allocated to Utility Rate supported programs.

Appendices I and II provide details on the year end service delivery and operating financial position by service results.

Table 1: 2020 Operating Year End Position

	Net Revised Budget	Year End Prior to Safe Restart	Safe Restart Funding Applied	Year End Surplus/ (Deficit)	Variance to Net Budget
Regionally Controlled Tax Services	$628.4M	$1.6M	$14.2M	**$15.8M**	**2.5%**
Regionally Financed External Organizations	$506.6M	($2.3M)	$2.5M	**$0.2M**	**0.0%**
Total Tax Supported Services	$1,135.0M	($0.7M)	$16.7M	**$16.0M**	**1.4%**
Utility Rate Supported Services	$445.4M	$2.9M	$0.2M	**$3.1M**	**0.7%**
Total	**$1,580.4M**	**$2.2M**	**$16.9M**	**$19.1M**	**1.2%**

a) Tax Supported Services

As outlined in Table 1 above, Tax Supported Services ended the year with a positive variance of $16.0 million, or 1.4 per cent of the Tax Supported net levy of $1.1 billion, which is within Peel's budget accuracy target of plus or minus 3 per cent.

The surplus was driven by operating variances, both COVID-related and "normal" operating variances, in various services. The focus of the report is on highlights of variances for Regionally Controlled programs and services. Additional details and analysis are provided in Appendix III on the variances to budget.

i) Regionally Controlled Tax Supported Services

The Regionally Controlled Tax Supported Services ended the year with an overall surplus of $15.8 million or a variance of 2.5 per cent, which is within the accuracy target of plus or minus 3 per cent on a net budget of $628.4 million.

As stated earlier in the report, the Region's budgets are developed based on the best information available at the time. Financial variances are typically driven by changes in service demand, economy and other external factors. However, for 2020, the drivers of the budget variance can be categorized into two main types: normal operational variances and COVID related variances.

Table 2: 2020 Year End Drivers of Variance

		COVID Related				
	Operational Variance	Service Level Change	COVID Costs	Program Specific Funding	Safe Restart Funding	Year-End Surplus/ (Deficit)
Regionally Controlled Tax Services	($3.0M)	$91.8M	($154.3M)	$67.1M	$14.2M	**$15.8M**
Utility Rate Supported	$6.8M	$3.1M	($7.0M)	-	$0.2M	**$3.1M**
Total	**$3.8M**	**$94.9M**	**($161.3M)**	**$67.1M**	**$14.4M**	**$18.9M**

The following are key drivers of the budget variances for Regionally Controlled Tax Services based on the categories outlined in Table 2 above.

Operational Variance – ($3.0 million)

Excluding the impacts related to COVID-19, Peel had a negative operational variance of $3.0 million related to "normal" service demand and activity. Below are key highlights of operational variances:

- $4.8 million deficit in **Non-Program** primarily driven by Increased Workplace Safety and Insurance Board liability. A $3.65 million contingent reserve draw for the WSIB liability was included in the 2020 Budget but not taken due to the overall surplus position for tax supported services.
- $2.1 million deficit in **Early Years and Child Care** related to transition costs in the Special Needs Program.
- $1.5 million surplus in **Housing Support** due to lower subsidy requirements from housing providers and private landlords as they experienced higher rent-geared-to-income revenue.
- $1.2 million surplus in **TransHelp** due to lower costs for bus operator wages, gas and diesel fuel as well as lower costs for fleet repairs and maintenance.
- $1.1 million surplus in **Community Investment** largely due to underspending in the Affordable Transit Program.

COVID Related Impact – ($62.5 million)

The total net impact of COVID-19 for Tax Supported Regionally Controlled programs was $62.5 million. As outlined in Table 2, this was the result of $154.3 million for COVID costs and pressures partially offset by $91.8 million in costs avoided where service levels had decreased due to COVID. As noted earlier in this report, the net impact of the COVID-related costs and pressures was funded through program specific funding and Safe Restart funding.

Two of the programs most impacted by the pandemic were **Long Term Care** and **Public Health**.

In **Long Term Care**, there were COVID related impacts of $13.4 million. This impact was largely driven by the need for increased cleaning, personal protective equipment (PPE) and additional staffing for screening, backfilling quarantined staff and overtime. These costs were partially offset by program specific Long Term Care funding of $7.5 million and Safe Restart funding of $3.2 million. Safe Restart funding was not applied to $2.8 million of the cost as these costs were the result of redeployed staff from the Adult Day Service and already funded through the Provincial Adult Day Services program.

For **Public Health**, more specifically **Infectious Disease Prevention**, costs and pressures from the pandemic began as early as January 2020, much earlier than other services in Peel. The program experienced increased costs and pressures of $13.8 million. The bulk of the costs ($11.4 million) were the result of additional costs for PPE, cleaning, staffing including overtime, as well as costs for technology support such as additional computers and software. These costs were fully funded through program specific funding from the Province. There was also $0.4 million for

Federal Voluntary Safe Isolation centers with the remaining $2 million of the costs for the Provincial School Focused Nurses program (a fully funded program).

Supporting the emergency response also resulted in hiring freezes and reprioritization of activities, as staff were redeployed to support COVID-19. This resulted in pausing of some base service activities. As a result, Chronic Disease Prevention is underspent by $2.7 million, Early Growth and Development by $1.3 million and Infectious Disease Prevention by $1.1 million. Table 3 provides a summary of the impact of COVID-19 on the services under the Public Health program.

Table 3: Summary of the Impacts of COVID-19 on Public Health

	COVID Related				Year-End Surplus/ (Deficit)
	Service Level Change	Increased Costs	Program Specific Funding	Safe Restart Funding	
Chronic Disease Prevention	$2.7M	-	-	-	**$2.7M**
Early Growth and Development	$1.3M	-	-	-	**$1.3M**
Infectious Disease Prevention	$1.1M	($13.8M)	$13.8M	-	**$1.1M**
Public Health Total	**$5.1M**	**($13.8M)**	**$13.8M**	**-**	**$5.1M**

Below are other key highlights of COVID related impacts on services:

- For **Early Years and Child Care**, $82.8 million was directed towards the additional stabilization and sustainability to child care providers during the pandemic. $68.0 million of the resources were re-directed from base programming as it could not be delivered during the pandemic.
- For **Housing Support**, $23.8 million was spent on services related to increased and changing demands for services to the vulnerable. These additional services were the result of the Reach Home and Social Services Relief Fund programs. This impact was partially offset by underspending of $2.7 million in agency and grant payments due to COVID-19.
- For **Waste Management**, the COVID related impact of $7.6 million was driven by $4.4 million in increased collection tonnage, processing, transfer, haulage and disposal and by loss in revenue of $3 million due to Council's direction to suspend material drop off fees. In addition, there were costs of $0.2 million largely driven from the closure of the Material Recovery Facility.
- For **Paramedics**, $6.8 million in costs were incurred for backfilling quarantined staff, staff overtime and personal protective equipment supplies.

Appendix IV provides a list of the incremental costs and pressures due to COVID.

COVID Funding

All of the net costs and pressures experienced by Regionally Controlled programs were funded either through **program specific funding** provided by Provincial or Federal governments or through the funding from the **Safe Restart** Agreements.

This additional funding enabled the Region of Peel to address the financial impacts of COVID and remain financially healthy.

Program Specific Funding - $67.1 million

A total of $67.1 million in funding was received from the federal and provincial governments to address COVID-related costs and pressures in specific programs mostly in Health and Human Services. This funding significantly reduced the financial pressure from those additional costs and pressures.

- In **Housing Support**, $34.5 million in external funding was received from the Reaching Home and Social Services Relief Fund for COVID-19 related expenses. In 2020, $23.8 million was used to fund increased and changing demands for services to the vulnerable. The balance of funding is planned to be spent by March 31, 2021.

- For **Early Years and Child Care**, the federal government provided $17.8 million in Social Services Relief Fund for childcare centers and extended the ability to use the funding to March 31, 2021. $17.7 million was used in 2020 with $0.1 million deferred for use in 2021.

- For **Infectious Disease Prevention**, a total of $13.8 million was provided to Peel Public Health to enable the response to the pandemic. This included agreements for one-time COVID-19 funding of $2.0 million for the School-Focused Nurses Initiative, $0.4 million for Federal Voluntary Safe Isolation centers and $11.4 million for COVID-19 extraordinary costs.

- In **Long Term Care**, $7.5 million in COVID-19 funding was received for prevention and containment, minor infrastructure, and repairs as well as infection control.

- For **Paramedic Services,** $4.3 million was received from the Province to cover COVID-19 expenses in 2020.

Appendix V provides a summary of the program specific funding for Regionally Controlled Services.

Safe Restart Funding - $14.2 million

In 2020, Peel received a total of $47.9 million in funding through the Safe Restart Agreement program. Peel’s allocation funded the eligible 2020 COVID-related costs and pressures for Tax and Utility Rate supported services. As outlined in Table 1 and Table 2 above, $14.2 million was allocated to Regionally Controlled tax supported services where service deficits were driven by COVID-related costs and pressures. Funding could only be allocated to bring an individual service to a net zero position and not create a surplus. The unused portion in the amount of $30.1 million will be used to help fund COVID-related costs and pressures in the 2021 Budget.

Appendix V provides the allocation of Safe Restart funding for both Regionally Controlled Services and Utility Rate Supported Services.

ii) Regionally Financed External Agencies

The Regionally Financed External Agencies ended the year with a total surplus of $0.2 million or a variance of 0.0 per cent. The variance is due to an overestimate by the Municipal Property Assessment Corporation for assessment services required by Ontario municipalities for 2020.

The year end surplus position also reflects the allocation of $2.5 million of Safe Restart funding to the Peel Regional Police for COVID-related costs and pressures.

b) Utility Rate Supported Services

As outlined in Table 4 below, Utility Rate Supported Services ended the year with a positive variance of $3.1 million, or 0.7 per cent of the Utility Rate budget of $445.4 million, which is within Peel's budget accuracy target of plus or minus 3 per cent.

Table 4: Summary of the Projected Variances for Utility Rate Supported Services

	Budget	Year end Projection	Surplus/ (Deficit)	% Variance to Net Budget
Water/Wastewater Net Expenditures before Billings	$445.4M	$446.5M	($1.1M)	(0.3%)
Peel Direct Billings	$405.6M	$409.7M	$4.1M	1.0%
Other Recoveries / Surcharges	$39.8M	$39.9M	$0.1M	0.2%
Net Service	**0**	**$3.1M**	**$3.1M**	**0.7%**

The year end surplus of $3.0 million for utility rate supported services was driven by the net financial impact of the following operational costs and COVID related drivers:

Operational Variances

- Surplus of $10.1 million due to Peel required billings of $8.7 million driven by the increased residential water consumption as a result of the dry summer, $1.0 million in surcharge revenue, $1.0 million underspending in staffing costs from vacancies remaining unfilled, partially offset by a deficit of $1.7 million from Municipality property tax reassessment and $1.6 million from higher electricity rate.

COVID-related Impacts

- Additional COVID related costs of $2.4 million for staff overtime, additional security guarding service and enhanced cleaning at the water and wastewater treatment facilities.
- Decreased revenue of $4.6 million from the delay of the water rate increase as per Council direction (see Appendix IV for additional details).

A summary of the water and wastewater variances is provided in Appendix III.

c) Surplus Management Actions

In accordance with the Budget Policy and Reserve Management Policy, the Chief Financial Officer is authorized to carry out the necessary surplus management actions to stabilize the current year's fiscal position and future tax and utility rates. Appendix VI of the report provides a summary of the proposed surplus management actions.

i) Tax Supported Services

Tax Supported Services generated a total surplus of $16.0 million. Approximately $15.8 million was generated by Regionally Controlled Tax Services and $0.2 million was generated by Regionally Financed External Agencies.

- **Recommendation** – The $15.8 million surplus generated by Regionally Controlled Tax Services is proposed to be allocated to the Anaerobic Digestion (AD) Facility under Waste Management to reduce the amount of debt financing required for the facility. This will reduce the amount of debt financing from $42.2 million to $26.4 million. The AD Facility is scheduled to be operational in 2024 and the reduction in debt financing costs will reduce the pressure on future operating budgets.

- **Recommendation** – The surplus of $186 thousand from Municipal Property Assessment Corporation is proposed to be transferred to the Assessment Services Stabilization reserve to mitigate fluctuations in costs in assessment services.

ii) Utility Rate Supported Services

Utility Rate Supported Services generated a total surplus of $3.1 million.

- **Recommendation –** The surplus of $3.1 million generated by Utility Rate Supported Services is proposed to be transferred to the Wastewater Rate Stabilization reserve. This will increase the reserve level from 8.2 per cent to 8.6 per cent of the operational expenditures and still within the recommended 5 to 10 per cent guideline in the Reserve Management policy.

The above recommended surplus management actions support the Region's overall Long Term Financial Planning Strategy by mitigating risks to financial flexibility, financial vulnerability and financial sustainability of Regional services and assets. These actions stabilize the Region's overall financial condition and future tax and utility rates, as well as contribute to the sustainability of the capital program.

d) Staffing Costs

People are a key investment in delivering services to Peel's community. As 27 per cent of the gross Regional budget is related to staffing, the Region closely monitors workforce related activities. In 2020 overall, Regionally Controlled services spent 106.4 per cent of the budgeted workforce related costs. Historically, the Region's budget for staffing costs have been extremely accurate averaging 99 per cent of the budget. The increased staffing costs relative to budget are due to staff overtime costs related to the response to COVID-19. As mentioned earlier in the report, all costs and pressures related to the pandemic were funded either through program specific funding or through Safe Restart funding.

e) Write-offs

The Accounts Receivable Policy gives the Chief Financial Officer the authority to approve the write-off of Water, Wastewater and General Receivable billings deemed uncollectable and requires staff to disclose this through the triannual reporting process.

The 2020 Budget includes provision for anticipated write-offs. Write-offs are only recorded when all means of collection have been exhausted. At the end of 2020, total write-offs amounted to approximately $136 thousand or 0.2 per cent of total billings. Appendix VII of the report provides a summary of the write-offs for the 12-month period ending December 31, 2020.

f) 2021 Outlook

Similar to 2020, the financial outlook for 2021 will greatly depend on the duration and severity of the pandemic. Programs and services, especially those in Health and Human Services, will continue to be impacted as they respond to COVID-19 pressures in the Peel community. In addition, efforts to manage the pandemic continue through the Mass Vaccination Program, one of the largest if not the largest emergency program ever undertaken by Peel. While the Province has stated that the costs of the Mass Vaccination program will be funded, no formal funding allocations have been announced at the time of the writing of this report.

3. Use of Rate Stabilization Reserves

The 2020 Budget provided a total of $12.9 million contingent Rate Stabilization Reserve draws to fund one-time pressures and smooth out the tax and utility rate impacts such as to mitigate temporary impact of lower commodity revenue and higher costs related to the Material Recovery Facility or Transitional Funding for Community Investment.

Regional Council's decision to utilize draws from Rate Stabilization Reserves to address temporary pressures is prudent. As the Regionally Controlled services ended the year in an overall surplus position, some budgeted reserve draws were not required. In 2020, a total of $4.3 million was drawn from Rate Stabilization Reserves to address temporary pressures including draws of $1.9 million to support Regionally Controlled services and draws of $2.4 million for External Agencies' services. As a result of prudent decisions, the Region's financial flexibility was maintained and property taxes were not unnecessarily increased through the budget.

4. 2020 Capital Performance

A companion report titled, "2020 Capital Performance and Impact on Capital Reserves and Reserve Funds" will be provided to Regional Council on May 13, 2021. The goal is to provide additional information and analyses of the Region's capital program to support Regional Council in making better informed decisions on the capital program.

CONCLUSION

The Region will continue to monitor the impact of COVID-19 and funding opportunities from senior levels of government while actively looking for opportunities to reduce spending with minimal risk to service levels. These actions, together with maximizing the use of the external funding received, will be taken into consideration in developing the 2022 Budget.

The Region will manage its financial resources for service delivery through balancing the three pillars of Financial Sustainability, Financial Vulnerability and Financial Flexibility in accordance with the Long-Term Financial Planning Strategy.

APPENDICES (remove if not applicable)

Appendix I - 2020 Service Levels
Appendix II - 2020 Operating Financial Year End Position
Appendix III - Year End Drivers of Variance
Appendix IV - Impact of COVID by Service
Appendix V - Allocation of COVID Funding by Service
Appendix VI - 2020 Proposed Surplus Management Actions
Appendix VII - Summary of Write-Offs

For further information regarding this report, please contact Norman Lum extension 3567 or via email: Norman.Lum@peelregion.ca

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