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**REPORT TITLE:**     **2019 Operating Financial Triannual Performance Report - Year End (Unaudited)**

**FROM:**             Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

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## **RECOMMENDATION**

**That the 2019 surplus management actions, as outlined in Appendix IV, in the report from the Commissioner of Finance and Chief Financial Officer, titled “2019 Operating Financial Triannual Performance Report – Year End (Unaudited),” be implemented.**

## **REPORT HIGHLIGHTS**

- Regional Council approved the 2019 Operating Budget of \$2.5 billion to provide funding for the Region to continue delivering services and meet the service needs of the residents, taxpayers, and the service demands of a growing community.
- Tax Supported Services ended the year with a surplus of \$9.0 million, or a variance to budget of 0.8 per cent, which is within the budget accuracy target range of plus or minus 3 per cent.
- Utility Rate Supported Services ended the year on budget.
- The recommended surplus and reserve management actions included in this report in Appendix IV are in line with Peel’s Long Term Financial Planning Strategy as they support financial flexibility, financial vulnerability and financial sustainability.
- A companion capital performance report for 2019 will be provided to Regional Council to provide more analytics on the capital program.

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## **DISCUSSION**

### **1. Background**

In January 2019, Regional Council approved \$3.8 billion through the 2019 Budget, including \$2.5 billion in operating funding for Regional services and a \$1.3 billion capital investment in Peel’s infrastructure.

The approved 2019 Operating Budget of \$2.5 billion includes \$0.5 billion to Peel’s externally financed agencies: Peel Regional Police, Ontario Provincial Police, three Conservation Authorities, and Municipal Property Assessment Corporation. The budget provides the Region of Peel with the funding to support community needs through services under the three areas of focus: Living, Thriving and Leading (services are listed in the Appendix I).

The Region of Peel’s operating budgets are developed based on the best information available during budget preparation. Budget assumptions are modeled and projected for

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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 using 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 rate payers.

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 2019 Operating Budget, as at December 31, 2019.

### 2. Operating Results

The Region of Peel ended the year with an overall surplus of \$9.0 million or a variance to budget of 0.6 per cent relative to both net tax levy and utility rate total billing revenues, which is within the budget accuracy target range of plus or minus 3 per cent.

As outlined in Table 1 below, the overall year end position is a combined result of Tax Supported Services, which resulted in a positive budget variance of \$9.0 million, and the Utility Rate Supported Services, which finished the year on budget.

Table 1

| \$ Millions                 | Total Expenditure Budget | Net Tax Levy/ Total Billings Budget | Net Tax Levy/ Total Billings Year End Actual | Surplus/ (Deficit) | % Variance to Net Budget |
|-----------------------------|--------------------------|-------------------------------------|--|--------------------|--------------------------|
| Tax Supported               | 1,969.3                  | 1,085.4                             | 1,076.4                                      | 9.0                | 0.8%                     |
| Utility Rate Supported      | 527.7                    | 412.9                               | 412.9  | 0.0                | 0.0%                     |
| <b>Total Region of Peel</b> | <b>2,497.0</b>           | <b>1,498.3</b>                      | <b>1,489.3</b>                               | <b>9.0</b>         | <b>0.6%</b>              |

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

#### a) Tax Supported Services

As outlined in Table 2 below, Tax Supported Services ended the year with a positive variance of \$9.0 million, or 0.8 per cent of the Tax Supported net levy of \$1.1 billion.

Table 2

| \$ Millions                           | Total Expenditure Budget | Net Tax Levy Budget | Net Tax Levy Year End Actual | Surplus/ (Deficit) | % Variance to Net Budget |
|---------------------------------------|--------------------------|---------------------|------------------------------|--------------------|--------------------------|
| Regionally Controlled Tax Services    | 1,441.1                  | 603.5               | 597.5                        | 6.1                | 1.0%                     |
| Regionally Financed External Agencies | 528.2                    | 481.9               | 478.9                        | 2.9                | 0.6%                     |
| <b>Total</b>                          | <b>1,969.3</b>           | <b>1,085.4</b>      | <b>1,076.4</b>               | <b>9.0</b>         | <b>0.8%</b>              |

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The surplus is driven by operating variances in various services with details provided in Appendix II.

### **i) Regionally Controlled Tax Supported Services**

The Regionally Controlled Tax Supported Services ended the year with an overall surplus of \$6.1 million or a variance of 1.0 per cent, which is within the accuracy target of plus or minus 3 per cent on a net budget of \$604 million. The overall surplus results from under expenditures and additional revenues. Appendix III provides an analysis of the variance to budget.

### **ii) Regionally Financed External Agencies**

The Regionally Financed External Agencies ended the year with a total surplus of \$2.9 million or a variance of 0.6 per cent. The majority of the variance was related to Peel Regional Police short-term vacancies.

### **b) Utility Rate Supported Services**

The Utility Rate Supported Services ended the year on budget, or zero per cent of total billing budget of \$413 million. This net position was the result of a deficit in Peel billings as a result of a decline in water consumption predominantly in the residential sector due to high precipitation for the summer months, offset by a surplus in electricity spend through participation in the Industrial Conservation Initiative and underspending in salaries.

### **c) 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 2019 overall, Regionally Controlled services spent 99.3 per cent of the budgeted workforce related costs reflecting the accuracy of Peel's budget model.

### **d) 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 IV of the report provides a summary of the proposed surplus management actions.

#### **i) Tax Supported Services**

##### **Tax Supported Services ended the year with \$9M surplus**

Tax Supported Services generated a total surplus of \$9.0 million. Approximately \$6.1 million was generated by Regionally Controlled Tax Services and \$2.9 million was generated by Regionally Financed External Agencies.

- The surplus generated by Regionally Controlled Tax Services (\$6.1 million) is proposed to be allocated to the General Government Reserve (\$5.63 million) to reduce the debt financing for the Seniors Health and Wellness Village, and

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to the Emerald Ash Borer (EAB) Working Fund Reserve (\$0.42 million) to fund 2020 EAB tree removal costs in Conservation Authorities.

- The surplus generated by Peel Regional Police (PRP) (\$2.9 million) will be transferred to the PRP Facilities Reserve.
- The surplus generated by Ontario Provincial Police (OPP) – Caledon (\$50 thousand) will be transferred to the Caledon Policing Stabilization Reserve.
- The surplus of \$18 thousand from Municipal Property Assessment Corporation will be transferred to the Assessment Services Stabilization Reserve.

### ii) Utility Rate Supported Services ended the year on budget

No surplus actions are required for utility rate supported services.

The above recommended surplus management actions support Peel'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 Peel's overall financial condition and future tax and utility rates, as well as contribute to the sustainability of the capital program.

### 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 2019 Budget includes provision for anticipated write-offs. Write-offs are only recorded when all means of collection have been exhausted. At the end of 2019, total write-offs amounted to approximately \$82 thousand. Appendix V of the report provides a summary of the write-offs for the 12-month period ending December 31, 2019.

### f) 2020 Outlook

As noted earlier in the report, the annual budget is developed by reviewing and modelling budget assumptions based on the best available information at the time. The analysis of actual results informs the next planning cycle.

Examples of how changing assumptions and trends were incorporated in the 2020 Budget include:

- **Revenue for Recycled Materials** - China's regulation on imports of recyclables continues to generate significant risk in marketing the Region's commodities and related revenue generation. The 2020 Budget includes a revenue reduction of \$2.1 million.
- **Energy Costs** – Electricity cost, which is a significant component of the operating costs of Peel's Utility Rate Supported services, is expected to continue to be kept low due to the on-going participation of Regional facilities in the Industrial Conservation Initiative program of the Province. Next year's

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budget for natural gas already includes increases due to the implementation of the Federal Carbon Tax. Given the volatility in energy costs and the variability of energy consumption that may be brought about by changes in Regional facilities or operations, as well as potential impacts of new energy legislation or regulation on the energy rates, the actual expenditures may vary from the budget amount.

- **Paramedic Call Volume** – From 2015 to 2018 ambulance call volume growth has increased over 30 per cent which equates to approximately 30,000 additional calls going into 2019. Current call volume forecasts an additional increase of 3.9 per cent in 2020 which means Paramedics will respond to approximately 148,000 calls in 2020 or 405 calls per day.
- **Operational Assumptions:** adjusted demand increase for TransHelp trips and utilization of a five year trend analysis to forecast water consumption demand.
- **COVID 19 Response:** As presented to Council at the April 9, 2020 Regional Council meeting, there are significant impacts to the Region's revenues (property tax, user fees, water bills etc.) and expenditures (increased costs for Paramedic Services, Long Term Care, Public Health, Homeless shelters, Housing etc.). Funding announcements made by both the Federal and Provincial governments which will help offset some of the short-term pressures. Staff will continue to assess and update Council.

Staff will closely monitor the impact of the above-mentioned changes on 2020 performance and on the 2021 Budget. Budget assumptions will be updated, and Regional Council will be informed through the 2021 Budget.

### 3. Impact on Rate Stabilization Reserves

The 2019 Budget provided a total of \$18.1 million contingent Rate Stabilization Reserve draws to fund one-time pressures and smooth out the tax and utility rate impact associated with requirements such as incremental operating costs related to the continued implementation of bi-weekly waste collection.

Regional Council's decision to utilize draws from Rate Stabilization Reserves to address temporary pressures is prudent. As some services were completed in a surplus position, some budgeted reserve draws were not required. In 2019, overall \$6.1 million was drawn from Rate Stabilization Reserves to address temporary pressures including draws of \$5.6 million to support Regionally Controlled services and draws of \$0.5 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.

### 4. 2019 Capital Performance

A companion report titled, "2019 Capital Performance and Impact on Capital Reserves and Reserve Funds" will be provided to Regional Council on April 23, 2020. 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.

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### CONCLUSION

Throughout 2019, while facing changes in the economy, commodity markets and legislative environment, the Region continued to deliver services to meet the needs of the residents and businesses of a growing community. The surplus management actions are in line with Peel's Long Term Financial Planning Strategy as they support financial flexibility, financial vulnerability and financial sustainability.

### APPENDICES

Appendix I - 2019 Service Delivery Results  
Appendix II - Statement of Net Expenditure  
Appendix III - Year End Variance Analysis  
Appendix IV - 2019 Proposed Surplus Allocation Summary  
Appendix V - Summary of 2019 Write-offs

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*Reviewed and/or approved in workflow by:*

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



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N. Polsinelli, Interim Chief Administrative Officer