
For Information

REPORT TITLE: 2022 Operating Financial Triannual Performance Report – April 30, 2022

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide a status update on the 2022 Operating Financial Triannual Performance Report as at April 30, 2022.

REPORT HIGHLIGHTS

- Regional Council approved the 2022 Operating Budget of \$2.7 billion to enable the Region of Peel to continue delivering services and meet the service needs of the residents, taxpayers, and the service demands of a growing community.
- After utilizing \$12.9 million in available COVID-19 funding, and assuming the Province will fully fund the Mass Vaccination Program costs, it is projected that Peel will result in an overall operating deficit of \$1.8 million, i.e., variance of 0.1 per cent, which is within the budget accuracy target range of plus or minus three per cent.
 - Tax Supported Services is projected to end the year with a deficit of \$0.7 million (\$0.8 million deficit for Regionally Controlled Tax Services minimally offset by \$0.1 million surplus for Regionally Financed External Organizations), representing a variance to budget of 0.1 per cent, which is inside the budget accuracy target range of plus or minus three per cent.
 - In the event the Province does not fully fund the Mass Vaccination Program, the Region forecasts an overall deficit of \$30.4 million.
 - Utility Rate Supported Services ended the year with a deficit of \$1 million which represents a variance to budget of 0.2 per cent.
- Excluding the impacts related to COVID-19, the normal operations of Regionally Controlled Tax Supported Programs project a surplus of \$0.3 million
- Unallocated COVID-19 related funding of \$4.2 million will be available to mitigate additional COVID-19 related costs and pressures in 2022.
- The redeployment of significant staff and other resources from Regional Tax Supported Services to the Region's COVID-19 response including the Mass Vaccination Program have continued into 2022. Services are in the process of recovering and transitioning to regular service delivery while planning to address back logs of work such as Public Health and its school immunization program.
- The pace and ability of the services to return to normal levels will largely depend on community demand and how quickly services can re-start and how fast staff can recover from the extraordinary pace and extent of work they have done to respond to COVID-19 over the past two plus years.
- A companion capital performance report for the first triannual of 2022 will be provided to Regional Council to provide analytics on the capital program.

DISCUSSION

1. Background

The Budget Policy requires that staff report the status of operating and capital services at a minimum of twice annually to manage financial performance to ensure the long-term financial sustainability of Regional services. This report provides the first forecasted year-end financial position of the Operating Budget based on the information and financial results as of April 30, 2022.

a) 2022 Operating Budget

The approved 2022 Operating Budget of \$2.7 billion includes \$0.6 billion to the Regionally Financed External Organizations: 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.

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.

\$7.1 million in COVID-19 funding was included in the 2022 budget to mitigate the decrease in Greater Toronto Airports Authority payments in lieu of taxes (PILTs) due to decreased passenger volume as a result of COVID-19.

b) Impact of COVID-19 Pandemic

The COVID-19 pandemic continues to have a significant impact on the broader economy, the finances of all municipalities and the delivery of their services. In addition to the Region incurring incremental COVID-19 related costs, many of Peel's non-essential services are continuing to be disrupted although plans for recovery and transitioning to more normal service delivery are underway. Further, rising inflation and interest rates, and the high cost of fuel have created unprecedented macroeconomic uncertainties adding to short-to-medium term costs and contributed to the downturn of the economy.

In addition to its contact tracing and other COVID-19 work, Peel Public Health – Infectious Disease Prevention has continued with the Mass Vaccination Program which was the biggest unbudgeted cost driver in 2021 and it will likely be again in 2022. This program has required the redeployment of a significant number of staff and other resources from the Infectious Disease Prevention service as well as staff from other services across the Region.

On May 2, 2022, the Region greatly appreciated receipt of \$52.6 million in Provincial funding leaving expenditures of \$28.6 million for Peel's Mass Vaccination Program without committed funding at the time of the writing of this report. Similar to 2021, the

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Region fully expects the Province to fund any incremental costs related to the vaccination program.

Many other services (excluding Infectious Disease Prevention) provided by the Region of Peel have also been impacted by the pandemic in different ways. Some services have not been able to be delivered (e.g., Peel Art Gallery and Museum and Archives) or have experienced a significant reduction in service levels (e.g., Early Years and Child Care) due to continued disruptions, isolation, and social distancing requirements. Other services have experienced lower demand or paused activities either due to the pandemic itself such as TransHelp and Affordable Transit or due to the redeployment of staff and resources to support the COVID-19 response or the Mass Vaccination Program such as Adult Day Services, Chronic Disease Prevention and Early Growth and Development.

Supporting the COVID-19 response and the Mass Vaccination Program has also placed tremendous pressure on staff from services across the corporation such as Legal, Human Resources, Facilities Services, Communications, Finance and Information Technology. These services have been critical to enabling the smooth set up, logistics and operations of the mass vaccination clinics.

The impact on the Region of Peel's 2022 year-end financial results will depend, to a large extent, on the cost of Peel's Mass Vaccination Program, the duration of the pandemic and the level of funding that will ultimately be provided by both levels of government to address the extraordinary costs of the program.

As restrictions are lifted by the Province, the pace and ability of the services to return to normal levels will largely depend on community demand and how quickly staff can recover from the extraordinary pace and extent of work they've done to respond to COVID-19 over the past two+ years.

2. Operating Results

The Region's operating performance includes Tax Supported Services, both Regionally Controlled and Regionally Financed External Organizations, and Utility Rate Supported Services. With many services pausing activities, experiencing lower demand, or redeploying staff and resources to support the COVID-19 response, some savings have been achieved. Overall, the Region anticipates an overall deficit of \$1.8 million including a forecasted deficit of \$1 million for Utility Rate Supported programs. The forecasted year end position assumes that the remaining \$28.6 million in unfunded costs for the Mass Vaccination Program will be funded.

Appendix I provides a summary of the projected year-end position by service.

For 2022, tax supported services that experienced extraordinary costs and pressures have received program-specific funding from the provincial and federal governments to partially offset some of those pressures. Broader municipal COVID-19 funding such as the Provincial COVID-19 Recovery Funding Agreement addresses those service pressures not funded through program-specific funding.

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a) Tax Supported Services

As outlined in Table 1 below, after the application of \$12.9 million in COVID-19 funding for Tax Supported Services, a deficit of \$0.7 million is forecasted by year-end, representing a variance of 0.1 per cent of the Tax Supported total net budget, which is within Peel's budget accuracy target of plus or minus 3 per cent.

Table 1: Projected Variances for Tax Supported Services

	Net Revised Budget	Year-End Projection Prior to COVID-19 Funding	COVID-19 Funding Applied	Projected Year-End Surplus/ (Deficit)	Variance to Net Budget
	(Millions)				
Regionally Controlled Services	\$681.2	(\$12.7)	\$11.9	(\$0.8)	(0.1) %
Regionally Financed External Organizations	\$548.0	(\$0.9)	\$1.0	\$0.1	0.0 %
Total	\$1,229.2	(\$13.6)	\$12.9	(\$0.7)	(0.1) %

Regionally Controlled Services are forecasting a \$0.8 million deficit, which is largely due to COVID-19 related impacts.

Regionally Financed External Organizations are forecasting a \$0.1 million surplus due to less Municipal Property Assessment Corporation costs, primarily caused by lower-than-expected growth in Peel.

3. Regionally Controlled Tax Supported Services

The Regionally Controlled Tax Supported Services are projecting to end the year with a \$0.8 million deficit or negative 0.1 per cent variance, outside Peel's budget accuracy target of plus or minus 3 per cent.

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.

For 2022, the majority of the variances are either a direct or indirect result of the pandemic. As outlined in Table 2, the variances can be classified under one of two general headings:

- COVID-19 related impacts on services, and
- "Normal" operational variances

As mentioned earlier, the forecasted results assume the Province will fund the remaining \$28.6 million unfunded costs from the Mass Vaccination Program.

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Table 2: COVID-19-Related Impact on Regionally Controlled Tax Supported Services

	COVID-19 Related		(c) Normal Operational Variances	Projected Year-End Surplus/ (Deficit)
	(a) Mass Vaccination Program	(b) Other COVID-19 Related Variances		
	(Millions)			
Net COVID-19 Pressures before funding	(\$81.2)	(\$111.3)	\$ -	(\$192.5)
Savings from Service Level Adjustments	\$ -	\$61.6	\$ -	\$61.6
Federal/Provincial COVID-19 Funding	\$81.2	\$48.6	\$ -	\$129.8
Other variances	\$ -	\$ -	\$0.3	\$0.3
Total	\$ -	(\$1.1)	\$0.3	(\$0.8)

The following highlights the key drivers of the forecasted budget variances under each of the three main headings in Table 2 for Regionally Controlled Tax Supported Services based on the information available up to April 30, 2022. Appendix II provides a summary and additional details of the variances by service.

a) Mass Vaccination Program – No net impact

The 2022 initial estimated cost for the Peel-run clinics including facilities, security, staffing, communications, human resources, information technology and other resources was estimated at \$84.2 million. Peel-run clinic costs are forecast to be \$78.4 million, \$5.8 million below the original estimate to the Province. Savings were largely due to the program taking advantage of cost sharing opportunities with Peel's Routine School Immunization Program and using internal staff to train others.

Peel continues working with two external partnerships as part of its overall delivery plan; the University of Toronto Mississauga (UTM) to complete the refurbishment of the gymnasium floor and the South Asian Task Force (SATF) whose clinic will be closed at the end of May 2022. The projected cost estimates are \$0.2 million for UTM and \$2.7 million for SATF.

Total MVP costs, Peel run clinics and external partners, are forecasted to be \$81.2 million, \$8.5 million lower than the initial estimate to the Province of \$89.7 million. Clinics have been able to reduce the hours of operation, re-evaluating contract services, sharing operational costs with Routine School Immunization and other efficiencies with minimal risk to service levels. The demand for COVID-19 vaccination continues to decline and Peel Public Health must refocus to ensure fiscal responsibility with Ministry funding, also the Region was able to transition to a more targeted approach. Appendix III provides additional details and comments on the reported costs.

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The initial cost estimates for the Peel-run clinics, SATF and UTM were submitted to the Province for funding on March 1, 2022. On May 2, 2022, the Region received confirmation of \$52.6 million in funding. The Region's projected year-end costs are \$81.2 million, and staff expect the remaining \$28.6 million in costs to be funded by the Province.

b) Other COVID-19 Related Impacts – (\$1.1 million)

Overall, \$111.3 million is projected for COVID-19 costs and pressures. This cost is partially offset by \$61.5 million in costs avoided where service levels had decreased due to COVID-19, and COVID-19 funding (Program Specific and broader municipal COVID-19) of \$48.7 million from senior levels of government. Appendix IV provides additional details on the reported impacts.

i) Costs and Pressures – (\$111.3 million)

The \$111.3 million in COVID-19 related costs and pressures are largely driven by Health and Human related services who have been at the forefront of the COVID-19 response. Below are highlights of services that experienced increased costs due to COVID-19:

- **Infectious Disease Prevention - \$44.2 million**
 - Bulk of costs are salaries and recruitment costs for the COVID-19 response and includes the \$2.3 million cost for the Safe Isolation Centre (fully funded by the Federal government)
- **Early Years and Child Care - \$23.9 million**
 - Additional spending for providers' sustainability and stabilization
- **Long Term Care - \$14.6 million**
 - Additional staffing required and additional COVID-19 supplies and equipment
- **Housing Support - \$7.7 million**
 - COVID-19 costs of \$5.3 million related to the Housing COVID-19 response offset by the Provincial funding - Phase 5 Social Services Relief Fund
 - COVID-19 costs of \$2.4 million related to the Housing response not covered through COVID-19 Phase 4 Social Services Relief Fund
- **Paramedic Services - \$6.6 million**
 - COVID-19 related expenses such as backfills for quarantined front-line staff, hospital to hospital patient transfers, non-management overtime, additional logistics support managing supplies and decontaminating ambulances, mask fit testing and increased personal protective equipment, respirators, and non-medical COVID-19 supplies

ii) Savings from Service Level Reductions - \$61.6 million

While most of Peel's services have been maintained during COVID-19, a number of services that couldn't be delivered during the pandemic are gradually re-opening (e.g., Peel Art Gallery and Museum and Archives) and others experienced greatly reduced service levels such as Child Care and the Affordable Transit program in Community Investment. Service levels were also adjusted where staff and other resources needed to be redeployed to support Peel's COVID-19 response. These resulted in significant savings to help mitigate the COVID-19 costs and pressures. Highlights include:

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- **Public Health - \$30.7 million**
 - The savings were largely due to the redeployment of staff from their regular work in Infectious Disease Prevention, Chronic Disease Prevention and Early Growth and Development to support the COVID-19 response and to staff vacancies
- **Early Years and Child Care – \$23.4 million**
 - Driven by program underspending in Fee Subsidy to providers due to continued service disruptions from COVID-19
- **Corporate Services - \$3.2 million**
 - Savings primarily due to staff being redeployed to supporting Mass Vaccination Program
- **Community Investment – \$0.8 million**
 - Driven by lower trip demand due to COVID-19 has resulted in underspending in the Affordable Transit Program.

iii) Federal/Provincial COVID-19 Funding - \$48.6 million

The net costs and pressures experienced by Regionally Controlled programs will be funded either through program specific funding provided by the Provincial or Federal governments or from broader municipal level COVID-19 Funding as summarized in Appendix V.

- **Program Specific Funding - \$36.7 million**

A total of \$36.7 million in unbudgeted funding has been allocated from the Federal and Provincial governments to address COVID-19 related costs and pressures in specific programs mostly in Health and Human Services. This funding significantly reduces the financial pressure from these additional costs and pressures. Highlights of the funding include:

 - **Infectious Disease Prevention**, \$20.3 million is forecasted for 2022 which includes:
 - \$13.1 million for the COVID-19 General program,
 - \$2.2 million for Nurse Retention,
 - \$2.7 million related to School Nurse funding
 - \$2.3 million Public Health Agency Canada funding for Safe Isolation fund
 - **Long Term Care**, \$9.9 million of funding was received from the Provincial government which includes:
 - \$6.9 million related to Prevention and Containment funding,
 - \$2.4 million related to the Temporary Wage Enhancement,
 - \$0.6 million related Infection Prevention & Control Minor Capital, and Professional funding
 - **Housing Support**, \$5.3 million in provincial funding for Phase 5 Social Service Relief Fund
- **COVID-19 Funding - \$11.9 million**

At the end of 2021, the Region had \$24.2 million available to alleviate COVID-19 costs and pressures for the 2022 Budget. \$7.1 million was set aside for 2022 to offset lower than expected Greater Toronto Airport Authority payments in lieu of taxes resulting in \$17.1million of COVID-19 funding to be allocated in 2022. \$11.9 million has been forecasted to offset COVID-19 costs for Regionally Controlled Services.

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An additional \$1 million of COVID-19 funding requirement has been forecasted for Regionally Financed External Organizations. As a result, unallocated funding of \$4.2 million from COVID-19 funding will be available to mitigate additional COVID-19 related costs and pressures in 2022.

Appendix V provides the projected allocation of COVID-19 funding by service for funding Tax Supported Services.

c) Normal Operational Variances - \$0.3 million

Excluding the impacts related to COVID-19, Tax Supported Regionally Controlled programs had a positive operational variance of \$0.3 million related to “normal” service demand and activity. Below are key highlights of operational variances:

- In **Waste Management**, a \$4.8 million surplus driven by higher commodity revenue benefiting from the rapid increase in prices and higher than budgeted payments from producers for Blue Box
- In **TransHelp**, a surplus of \$4.7 million is largely driven by surplus in trip delivery (only 57 per cent of budgeted trips delivered) due to lower trip demand; surplus for Fleet Repairs and Maintenance due to lower bus trips, and salaries and benefits due to staff redeployment and vacancies
- In **Housing Support**, a \$2.3 million surplus mainly due to Housing subsidies surplus and unplanned funding related to the new Homelessness Prevention Program
- In **Income Support**, a \$2.3 million surplus mainly due to vacancies that were not filled due to a decrease in caseload
- In **Corporate Services**, operational savings of \$1.7 million mainly due to salary savings from the departmental merger and underspending in discretionary accounts such as contracted-out services
- In **Early Years and Child Care**, savings of \$0.4 million in salaries due to the delay in hiring for vacant positions and other miscellaneous operational cost
- In **Non-Program**, a deficit of \$14.7 million is projected for self-insured benefits. Key drivers of the deficit include funding the Workers Self Insurance Board (WSIB) liability including the Peel Regional Police portion of \$10.4 million and an increase in WSIB claim costs, increase in health and dental benefits attributed to enhancements in coverage.

4. Utility Rate Supported Services

As outlined in Table 3 below, Utility Rate Supported Services are forecasting a year-end deficit of \$1 million, or 0.2 per cent of the Utility Rate net budget of \$502.3 million, which is within Peel’s budget accuracy target of plus or minus three per cent.

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Table 3: Projected Variances for Utility Rate Supported Services

Services	Net Budget	Year-End Projection	Projected Surplus/ (Deficit)	Variance to Net Budget
	(Millions)			
Water/Wastewater Net Expenditures before Billings	\$502.3	\$503.3	(\$1.0)	(0.2) %
Peel Direct Billings	\$459.4	\$459.4	\$ -	0.0 %
Other Recoveries / Surcharges	\$42.9	\$42.9	\$ -	0.0 %
Total	\$ -	(\$1.0)	(\$1.0)	(0.2) %

The forecasted year-end deficit of \$1 million for utility rate supported services is driven by increased cost for chemicals due to the political situation in Europe offset by hiring delays of operational staff as outlined in Appendix II.

5. 2023 Outlook

While the COVID-19 response and Peel's Mass Vaccination Program requires significant expenditures in 2022, the Provincial government has provided much needed and appreciated relief through the COVID-19 related funding received to date.

For the purposes of the 2023 Budget, staff anticipate that services will return to more normal service delivery with a lesser impact from COVID-19. However, the pace at which the services return to normal will greatly depend on staff recovery and the transition period for services to adjust to a post-COVID environment which the Public Health team is currently assessing.

Key variables for the 2023 Budget will be post-COVID service demand and the impact of heightened inflation on the Operating budget, the Capital budget and the Ten-Year Capital Plan. For Q1 2022, the Consumer Price Index was 5.8 per cent and the Non-Residential Construction Price Index was 17.3 per cent.

Over the summer, staff will develop strategies to mitigate the risks from inflation on the budget. Additional information is presented through the June 23, 2022, report of the Commissioner of Corporate Services and Chief Financial Officer titled "Approach to the Development of the 2023 Budget."

6. 2022 Capital Performance

A companion report titled, "2022 Capital Financial Triannual Performance" will be provided to Regional Council on July 7, 2022. 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 the Mass Vaccination Program, other COVID-19 related impacts on services and funding opportunities from senior levels of government

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whilst actively looking for opportunities to reduce spending with minimal risk to service levels. These actions, including active monitoring of inflation, will be taken into consideration in developing the 2023 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

Appendix I - 2022 Projected Operating Year-End Position by Service

Appendix II - Drivers of Projected Year-End Variance to 2022 Budget

Appendix III - Public Health Mass Vaccination Program Financial Report

Appendix IV - Projected Year End Impact of COVID-19 by Service

Appendix V - Projected Allocation of COVID-19 Funding by Service

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