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**Subject:** Q3 2021 Financial Update

**Report to:** Corporate Services Committee

**Report date:** Wednesday, December 8, 2021

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## Recommendations

1. That the September 30, 2021, Q3 Financial Update of the Regional Municipality of Niagara ("the Region") **BE RECEIVED** for information.

## Key Facts

- The purpose of this report is to provide an overview of forecasted operating variances to year-end based on actual results as of September 30, 2021, including a detailed financial report of COVID-19 related financial activities. Quarterly financial updates are provided as of June, September and December each year and include forecasted operating results; capital project reporting; reserves and deferred revenue; investments; debt; consolidated statement of financial position and accounts receivable.
- Regional departments and General Government are projecting a forecasted surplus of \$12.1 million (1.85% of budget) at year-end. Levy-supported programs (Regional Departments consolidated with Agencies, Boards and Commissions ("ABCs")) are forecasting an overall surplus of \$11.1 million (1.22% of budget) at year-end.
- Rate-supported programs (Water and Wastewater Services and Waste Management Services) are projecting an overall surplus of \$5.3 million (2.57% of budget) at year-end.
- The above results include the Region's current estimate of 2021 financial impacts related to the COVID-19 pandemic, including total net expenditures of \$55.4 million and confirmed COVID-19 external funding to date of \$56.3 million (see Appendix 5 to Report CSD 78-2021). Funding announcements that are anticipated but have not been confirmed have not been included in this forecast. Net expenditures include transit service surplus driven by COVID-19 service reductions which will be part of the year end levy surplus.
- The 2021 budget included a transfer from the Taxpayer Relief Reserve of \$19.0 million to fund COVID-19 related expenditures (\$18.8 million for Levy programs and \$0.2 million for Rate programs per CSD 39-2021). Staff are forecasting that this budgeted transfer from reserve will not be required as a result of confirmed external

funding. As these estimates are subject to change, staff will continue to monitor and provide updates quarterly on the actual Reserve funding required.

- Departments prepare forecasts using assumptions and estimates based on information available at the time of writing the quarterly financial updates. All financial implications quantified in this report include estimates up to December 31, 2021, unless otherwise noted. Estimates in this report are fluid and changing and as a result, the forecasts contain inherent risks and actual results may differ.

## Financial Considerations

Full analysis and explanation of the levy and rate-supported program forecasts can be found in the Q3 2021 Financial Update Report on the Region's website at the link below and in Appendix 1 to Report CSD 78-2021. The report is compliant under the Accessibility for Ontarians with Disability Act. Hard copies of the report can be made available upon request.

### Q3 2021 Financial Update

(<https://www.niagararegion.ca/business/finance/quarterly-reports/default.aspx>)

A high-level analysis of the financial results below is provided in the analysis section of the report. The results below are inclusive of COVID-19 financial impacts.

Table 1: Q3 2021 Results Summary

(in thousands)	Forecasted Surplus/(Deficit) After Indirect Allocations	Percent of Gross Expense Budget
Regional Departments and General Government	\$12,134	1.85%
NRPS	(1,010)	-0.52%
NRH	118	0.25%
Court Services	(99)	-1.20%
NPCA	0	0.00%
<b>Total Levy-Supported</b>	<b>\$11,143</b>	<b>1.22%</b>
Water and Wastewater	\$253	0.18%
Waste Management	5,040	7.93%
<b>Total Rate-Supported</b>	<b>\$5,293</b>	<b>2.57%</b>

Recommendations to address final surpluses and/or deficits will be brought forward to Council as part of the 2021 Year-End Transfer report. Revenues and expenses that are

driving the 2021 surplus have been considered in the preparation of the 2022 budget and any sustainable savings will be incorporated into the 2022 budget.

## Analysis

Table 2 shows the breakdown of the COVID and Non-COVID surplus/(deficits), by department. The surplus/(deficit) amounts presented in the table are reflective of the totals after indirect allocations.

Table 2: Breakdown of COVID and Non-COVID Surplus/(Deficit)

(in thousands)	Non-COVID Surplus/(Deficit)	COVID Surplus/(Deficit)	Total Surplus/(Deficit)
Levy Supported Departments and Programs:			
Regional Departments			
Governance	\$109	\$0	\$109
General Government	\$1,773	\$169	\$1,942
Corporate Administration	\$1,358	\$0	\$1,358
Corporate Services	\$342	\$0	\$342
Community Services	\$1,329	\$4	\$1,333
Public Health & Emergency Services	(\$685)	\$583	(\$102)
Public Works – Transportation	\$4,794	\$1,720	\$6,514
Planning & Development	\$638	\$0	\$638
<b>Subtotal – Regional Departments</b>	<b>\$9,658</b>	<b>\$2,476</b>	<b>\$12,134</b>
Agencies, Boards and Commissions (ABCs):			
Court Services	\$69	(\$169)	(\$100)
NRH	\$122	(\$3)	\$119
NRPS	(\$317)	(\$693)	(\$1,010)
NPCA	\$0	\$0	\$0
<b>Total ABCs</b>	<b>(\$126)</b>	<b>(\$865)</b>	<b>(\$991)</b>
<b>Total Levy Support Departments and Programs</b>	<b>\$9,532</b>	<b>\$1,611</b>	<b>\$11,143</b>
Rate Departments:			
Water and Wastewater	\$253	\$0	\$253
Waste Management	\$5,040	\$0	\$5,040
<b>Total Rate-Supported</b>	<b>\$5,293</b>	<b>\$0</b>	<b>\$5,293</b>

The Q3 2021 financial results are being driven by many different factors, which are summarized below.

**Levy-Supported Programs (all amounts in thousands of dollars):**

Niagara Region's levy programs are operating at a net forecasted surplus of \$11,143. The Region has continued to monitor and respond to the COVID-19 pandemic and make changes to service delivery to continue to meet the needs of Niagara residents.

Of the total levy surplus of \$11,143, \$9,532 of the surplus (85.5% of total levy surplus) is driven by the non-COVID-19 related surplus, while \$1,611 (or 14.5% of total surplus) is related to COVID-19 surplus.

Full details on the factors driving the COVID-19 and non-COVID-19 surpluses with the levy departments and programs can be found in Appendix 1 to this report. High-level factors contributing to the surplus have been presented below.

The \$9,658 non-COVID-19 related levy surplus, excluding ABCs, is forecast to include lower than anticipated Development Charge (DC) grants of \$5,181, savings realized across all departments in training and travel-related costs as a result of pandemic-related restrictions of \$1,226, lower than anticipated services costs for Niagara Specialized Transit (NST) and NRT OnDemand services resulting in forecasted savings of \$3,344. These favourable variances have been offset by an increased allocation of investment income to the rate reserves and deferred revenue at the average portfolio rate of \$3,523.

The \$2,476 COVID-19 related levy surplus, excluding ABCs, is driven by pandemic-related reduced service levels in the Transit (\$1,720) and the surplus associated with the six permanent FTE's that were budgeted in Public Health with basis levy funding that have attracted incremental COVID-19 program specific funding (\$583).

Niagara Region's ABCs are operating at a forecasted net deficit of \$991 (0.39% of budget), with \$865 (87.2% of total ABC deficit) of the deficit being attributed to COVID-19 net expenditures and \$126 (12.8% of total ABC deficit) being attributable to non-COVID-19 related net expenditures.

The \$126 non-COVID-19 related ABC deficit is resulting from higher than anticipated compensation costs (mainly attributed to overtime and replacement pay costs) in NRPS of \$1,004. Court Services has forecasted a surplus of mainly due to lower than anticipated administrative costs (\$1,120) primarily relating to the provincial order to temporarily adjourn in-person court matters and trial matters during the pandemic.

The \$865 COVID-19 related ABC deficit is due to lost revenues in Court Services of \$727 due to court closures, trial adjournments, delays in convictions and the subsequent payment of those fines and higher than anticipated compensation costs in NRPS, forecasted to be \$248 by year end and higher than budgeted program specific supply purchases forecasted at \$222. These unfavourable variances have been offset by administrative and operational and supply savings in Court Services for expenditures not required as a result of the court closures, trial adjournments and delays in convictions as noted above.

**Rate-Supported Programs (all amounts in thousands):**

Rate-supported programs are forecasting a nil surplus related to COVID-19 operating results therefore the results below are inclusive of COVID-19 and non-COVID-19 expenditures.

**Water and Wastewater Services:**

Water and Wastewater Services has a forecasted net surplus at year-end of \$253 (0.18% of budget) at year-end, which consists of a surplus of \$245 in the Wastewater division and \$8 in the Water division.

The forecasted surplus is driven by lower than expected repairs and maintenance costs throughout the department resulting in a forecasted savings of \$349 and net utility savings of \$1,251. These favourable forecasted variances have been offset by an unfavourable variance in water sales of \$660 due to a wet spring and summer combined with decreased water usage as a result of the COVID-19 pandemic as well as unfavourable variance in sludge management and chemical costs of \$128 and \$828 respectively due to increased wastewater volumes.

**Waste Management:**

Waste Management Services are operating at a forecasted surplus at year-end of \$5,040 (7.93% of budget).

The forecasted surplus is primarily a result of a favourable variance of \$5,902 from higher than anticipated net market revenues from the sale of recyclable commodities arising from increased commodity prices. This favourable variance is offset by unfavourable variances of \$209 due to increased organic processing costs arising from higher volumes and \$426 in reduced garbage bag tag revenue.

This surplus was not anticipated at the time of developing the 2022 budget strategy; therefore, it will be available to assist in mitigation of 2022 budget pressures.

### COVID-19 Financial Impacts:

Staff continue to track costs directly related to the pandemic and report on these impacts. These costs are incorporated into the comprehensive financial results discussed in this report.

As shown in Table 3 below, COVID-19 net expenditures of \$55.4 million have been forecasted at Q3, an increase of \$1.7 million over the Q2 estimates. These expenditures are funded with \$56.3 in external funding, nil in reserve funding and a levy surplus of \$836 resulting from Regional Departments surplus from transit offset by deficit in the ABCs which is attributable to higher than anticipated compensation costs within NRPS and lost revenues in Court Services. .

Table 3: Q3 2021 COVID-19 Financial Overview (in thousands)

Program Area	Net Expenditures	Confirmed External Funding	Levy Surplus / (Deficit)	Transfer to / (from) Reserve
Regional Departments	\$49,436	(\$51,342)	\$1,817	\$89
ABCs	\$4,805	(\$3,824)	(\$981)	\$0
<b>Total Levy-Supported</b>	<b>\$54,241</b>	<b>(\$55,166)</b>	<b>\$836</b>	<b>\$89</b>
<b>Total Rate-Supported</b>	<b>\$1,123</b>	<b>(\$1,123)</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Niagara Region</b>	<b>\$55,364</b>	<b>(\$56,289)</b>	<b>\$836</b>	<b>\$89</b>
Q2 Forecast	\$53,710	(52,409)	\$1,275	(\$2,576)
<b>Change</b>	<b>\$1,654</b>	<b>(\$3,880)</b>	<b>(\$439)</b>	<b>\$2,665</b>

The following appendices have been included in this report providing details on COVID-19 related financial impacts, funding sources etc.:

Appendix 2 provides a summary of the COVID-19 forecasted net costs and funding, by department, as well as the incremental changes from the Q2 2021 Financial Update.

Appendix 3 provides further detail of the corporate cost assumptions and cost categories of COVID-19 related expenditures.

Appendix 4 shows a detailed breakdown of COVID-19 related expenditures by operating department, including redeployed resources as part of the total costs.

Appendix 5 provides a summary of confirmed funding announcements.

The 2021 budgeted transfer from the Taxpayer Relief reserve of \$19.0 million to fund COVID-19 related expenditures (\$18.8 million for Levy programs and \$0.2 million for Rate programs), is forecast to not be required as a result of confirmed external funding. The impact of this change on the Taxpayer Relief reserve forecasted balance is shown below in Table 4.

The Taxpayer Relief Reserve 3-Year forecast incorporates a preliminary estimate of the 2022 budget and 2023 forecast draws on reserve related to COVID-19 which will be recommended to Budget Review Committee of the Whole. Similar to the 2021 budget assumption, the Taxpayer Relief reserve will be utilized to fund any COVID-19 related costs until any additional incremental external funding is confirmed.

Table 4: Taxpayer Relief Reserve 3-Year Forecast

(in millions)	2021 Budget	2021 Forecast	2022 Forecast	2023 Forecast
Opening Balance (1)	\$53.5	\$53.5	\$60.0	\$32.5
<b>Total Non-COVID-19 Transfers</b>	<b>(6.6)</b>	<b>(4.8)</b>	<b>(1.5)</b>	<b>0.4</b>
COVID-19 Funding Requirements:				
2021 COVID-19 Regional Levy and General Government funding	(17.2)	0.1	0	0
2021 COVID-19 ABC funding	(1.6)	0	0	0
2021 COVID-19 Rate funding	(0.2)	0	0	0
<b>Total COVID-19 Funding Transfers</b>	<b>(19.0)</b>	<b>0.1</b>	<b>(26.0)</b>	<b>0</b>
<b>Q3 Forecasted Surplus</b>	<b>0</b>	<b>11.1</b>	<b>0</b>	<b>0</b>
<b>Forecasted Reserve Balance</b>	<b>\$27.9</b>	<b>\$60.0</b>	<b>\$32.5</b>	<b>\$32.9</b>

(1) The 2021 budgeted balance has been adjusted to reflect 2020 year-end results and approved transfers.

## Alternatives Reviewed

Forecasts for the year are provided using the best information and estimates based on circumstances known at the time of the financial update.

Staff are working with both the area municipality treasurers within Niagara Region and with colleagues across the province (through the Ontario Regional and Single-Tier Treasurers group) to share ideas and strategies to respond to the financial and operational impacts of this pandemic.



## **Relationship to Council Strategic Priorities**

Forecasting financial results and providing formal reporting to Council and the public supports the Council Strategic Priority of Sustainable and Engaging Government.

Supporting the COVID-19 emergency response directly supports Council's strategic priority of a Healthy and Vibrant Community

## **Other Pertinent Reports**

- ED 4-2021 Tourism Adaption and Recover Fund Budget Adjustment
- PHD 6-2021 Public Health and 2021 Annual Service Plan and Budget Submission
- CSD 17-2021 2020 Year-End Results and Transfer Report
- CSD 5-2021 2021 Levy Operating Budget
- CSD 39-2021 Q1 2021 Financial Update
- CSD 56-2021 Q2 2021 Financial Update

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### **Submitted by:**

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This report was prepared in consultation with the Corporate Leadership Team and consolidated ABCs and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer.

## **Appendices**

Appendix 1	Q3 2021 Financial Update
Appendix 2	COVID-19 Incremental Costs and Funding Sources
Appendix 3	COVID-19 2021 Total Cost Summary (Inclusive of Redeployed Resources)
Appendix 4	COVID-19 Total Cost by Department
Appendix 5	Confirmed COVID-19 Funding Announcements