

## Report to Strategic Priorities and Policy Committee

**To:** Chair and Members  
Strategic Priorities and Policy Committee

**From:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

**Subject:** 2022 Mid-Year Operating Budget Monitoring Report

**Date:** September 20, 2022

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to the 2022 Mid-Year Operating Budget Monitoring Report:

- a) The 2022 Operating Budget Mid-Year Monitoring Report for the Property Tax Supported Budget, Water Budget, and Wastewater and Treatment Budget **BE RECEIVED** for information. An overview of the net corporate projections are outlined below, noting that the year-end positions could fluctuate based on factors beyond the control of Civic Administration:
  - i) Property Tax Supported Budget projected surplus of \$8.6 million.
  - ii) Water Rate Supported Budget projected surplus of \$3.8 million.
  - iii) Wastewater and Treatment Rate Supported Budget projected surplus of \$1.6 million.

It being noted that Property Tax, Water, and Wastewater & Treatment Budget surplus will be allocated in accordance with the Council Approved Surplus/Deficit Policy.
- b) The presentation providing an overview of 2022 Mid-Year Budget Monitoring (Appendix C) **BE RECEIVED** for information.

## **Executive Summary**

This report provides a summary of the projected 2022 year-end operating results for the Property Tax Supported Budget, the Water Rate Supported Budget and Wastewater and Treatment Rate Supported Budget.

The Property Tax Supported Budget is projected to incur a total of \$32.3 million of COVID-19 financial impacts in 2022 (projected lost revenues and additional costs). However, significant Federal and Provincial support has been made available since the onset of the pandemic, with the City of London currently projecting to utilize a total of \$17.9 million in 2022 through various programs announced this year and unused funding carried over from 2021. In addition, net operational savings of \$23 million are projected as a result of various factors (articulated later in this report). Combining the net COVID-19 financial impacts with the net operational savings, the City is projecting to end the year in a surplus position of \$8.6 million for the Property Tax Supported Budget.

The Water Rate Supported Budget is projecting to realize a revenue surplus of \$1.9 million primarily driven by surplus from residential consumption-based revenues. Combined with a \$1.9 million surplus from various operational costs savings, these factors result in the Water Rate Supported Budget projecting a \$3.8 million surplus.

The Wastewater and Treatment Rate Supported Budget is projecting additional costs of \$0.1 million related to COVID-19. A total of \$1.7 million of savings is projected primarily from energy efficiency savings and net operational savings, with another \$1.6 million in revenue surplus primarily from residential consumption-based revenues. This is offset by a \$1.6 million deficit in high strength sewer surcharges. These factors result in the Wastewater and Treatment Budget projecting an overall surplus of \$1.6 million.

The Municipal Council approved Surplus/Deficit Policy provides for the allocation of Property Tax, Water, and Wastewater and Treatment year-end surplus, if realized.

## **Linkage to the Corporate Strategic Plan**

Council's 2019 to 2023 Strategic Plan for the City of London identifies 'Leading in Public Service' as a strategic area of focus. The City of London's Multi-Year Budget development and monitoring is a strategy to maintain London's finances in a transparent and well-planned manner to balance equity and affordability over the long term. On a semi-annual basis, through the Operating Budget Monitoring Report process, Civic Administration measures the results achieved against approved budgets, and recommends appropriate adjustments in line with City policies and practices. This exercise ensures the operating budget is continuously updated and reflective of the City's Strategic Plan.

# Analysis

## 1.0 Background Information

### 1.1 Previous Reports Related to this Matter

Corporate Services Committee, meeting on April 19, 2022, Agenda Item 4.1, 2021 Year-End Operating Budget Monitoring Report

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=91422>

## 2.0 Discussion and Considerations

Budget monitoring is a key component for the governance and accountability process of the 2020 to 2023 Multi-Year Budget. As part of the move to a Multi-Year Budget for the Corporation of the City of London (the “City”), the budget monitoring process and reporting elements were evaluated to ensure that Council and the community are provided with the appropriate amount of information to understand actual and projected spending against the budget.

Each year Civic Administration will submit two monitoring reports to Council, the Operating Budget Mid-Year Monitoring Report and Operating Budget Year-End Monitoring Report. In addition to these two reporting cycles, once per year the multi-year budget is updated through the Annual Budget Update (refer to **Appendix B** for the budget cycle). The monitoring reports and annual budget updates inform Council and the community of the City’s progress towards achieving the approved multi-year budget targets.

The purpose of this report is to:

- Provide an overview of the projected financial results of the operating budgets for the Property Tax Supported Budget and Water and Wastewater and Treatment rate supported budgets.
- Provide an overview of the projected net financial impacts of COVID-19.
- Provide an overview of federal and provincial funding as well as other forms of grants provided in response to COVID-19.
- Provide an overview of the potential impacts of inflation.
- Provide a summary of other emerging issues that may impact the Multi-Year Budget in 2023.

## 3.0 Financial Impact/Considerations

### 3.1 2022 Property Tax Supported Operating Budget Monitoring

COVID-19 continues to have a financial impact on the City’s Property Tax Supported Budget. The City is projecting to incur a total of \$32.3 million of COVID-19 financial impacts in 2022 (projected lost revenues and additional costs). However, significant Federal and Provincial support has been made available since the onset of the pandemic, with the City of London currently projecting to utilize a total of \$17.9 million in 2022 through various programs announced this year and unused funding carried over from 2021. In addition, net operational savings of \$23 million are projected as a result of various factors as outlined below. Combining the net COVID-19 financial impacts with the net operational savings, the City is projecting to end the year in a surplus position of \$8.6 million for the Property Tax Supported Budget. Table 1 provides a summary breakdown of the projected year-end position.

**Table 1 – 2022 Projected Year-End Position (\$millions)**

<b>Category</b>	<b>Lost Revenues due to COVID-19 (A)</b>	<b>Additional Costs due to COVID-19 (B)</b>	<b>Financial Impacts due to COVID-19 (C) = (A+B)</b>	<b>COVID-19 Related Grant Funding (D)</b>	<b>All Other Factors (E)</b>	<b>Surplus/ Deficit (F) = (C)+(D) + (E)</b>
Property Tax Supported Civic Service Areas Budgets	-\$9.2	-\$15.2	-\$24.4	\$13.8	\$18.5	\$7.9
Boards and Commissions Budgets	-\$7.4	-\$0.5	-\$7.9	\$4.1	\$4.5	\$0.7
<b>Total Civic Areas and Boards and Commissions</b>	<b>-\$16.6</b>	<b>-\$15.7</b>	<b>-\$32.3</b>	<b>\$17.9</b>	<b>\$23.0</b>	<b>\$8.6</b>

**Total Civic Areas and Boards and Commissions Surplus \$8.6**

Subject to rounding

The primary contributing factors driving the year-end position include:

- Lost revenues of \$16.6 million (2021: \$46.8 million). Main drivers include lost transit revenue due to a gradual recovery in transit ridership, lost user fee revenue due to closures in January at community centres and recreation facilities and gradual return to regular operations, and lost parking fee revenues due to continued reduced parking demand and use of free parking promo codes intended to support recovery from the pandemic.
- Additional costs incurred of \$15.7 million (2021: \$21.9 million), primarily driven by additional expenditures to provide temporary supports for vulnerable populations, additional operating funding for childcare providers, and enhanced cleaning and additional personal protective equipment.
- Offset by grant funding of \$17.9 million (2021: \$45.9 million) primarily driven by Safe Restart Agreement transit funding, Social Services Relief Funding, Reaching Home Funding, and additional Child Care COVID-19 Funding.
- Also offset by other factors of \$23 million (2021: \$42.4 million) primarily due to various operational savings (net of associated reserve fund contributions), some of which are resulting from residual impacts of COVID-19. Specific examples include, among others:
  - Financial Management – investment revenue surplus due to higher interest rates and cash balances than budgeted
  - Garbage, Recycling and Composting – delayed implementation of Green Bin program, and increased recycling revenues
  - Corporate Services – reduced utility demand at City facilities due to modified operations because of COVID-19 restrictions in the first part of the year
  - London Transit Commission – savings in operating costs due to gradual recovery in demand

For a breakdown of the surplus/deficit by service grouping, refer to **Appendix A**.

A detailed summary of the City’s COVID-19 financial impacts for 2020 to 2022 can be found in section 4.1.

## Allocation of 2022 Projected Surplus

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Property Tax Supported Budget as follows:

- a) 50% to reduce authorized debt;
- b) 25% to the Community Investment Reserve Fund to be allocated at the discretion of Council, and;
- c) 25% to the Capital Infrastructure Gap Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the projected \$8.6 million surplus, if realized, will be allocated as follows:

- a) \$4.3 million to reduce authorized debt;
- b) \$2.15 million to the Community Investment Reserve Fund, and;
- c) \$2.15 million to the Capital Infrastructure Gap Reserve Fund.

### 3.2 2022 Water Rate Supported Operating Budget Monitoring

The 2022 Water Rate Supported Budget projected surplus is \$3.8 million (Table 2).

**Table 2 – 2022 Projected Year-End Position (\$millions)**

Category	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) =(A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/Deficit (F) =(C)+(D) +(E)
Water	\$0.0	\$0.0	\$0.0	\$0.0	\$3.8	\$3.8
<b>Total Water Surplus</b>						<b>\$3.8</b>

Subject to rounding

The projected year-end position is driven by the following:

- All other factors resulting in a net surplus of \$3.8 million:
  - A \$1.9 million projected surplus in revenues, primarily from residential consumption-based revenues as customers continue to spend more at home (e.g. continuation of work from home practices).
  - A \$1.9 million projected surplus driven by various operational cost savings.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Water Rate Supported Budget as follows:

- d) 50% to reduce authorized debt, and;
- e) 50% to the Waterworks Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the projected \$3.8 million surplus, if realized, will be allocated as follows:

- d) Nil to reduce authorized debt (there currently is no authorized debt to which debt substitution can be applied for the Water Rate Supported Budget), and;
- e) \$3.8 million to the Waterworks Reserve Fund.

### 3.3 2022 Wastewater and Treatment Rate Supported Operating Budget Monitoring

The 2022 Wastewater and Treatment Rate Supported Budget projected surplus is \$1.6 million (Table 3).

**Table 3 – 2022 Projected Year-End Position (\$millions)**

Category	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) =(A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/Deficit (F) =(C)+(D)+ (E)
Wastewater and Treatment	\$0.0	-\$0.1	-\$0.1	\$0.0	\$1.7	\$1.6
<b>Total Wastewater and Treatment Surplus</b>						<b>\$1.6</b>

Subject to rounding

The projected year-end position is driven by the following:

- Additional costs of \$0.1 million to meet physical distancing requirements and additional COVID-19 related personal protective equipment and cleaning.
- All other factors resulting in a net surplus of \$1.7 million:
  - \$1.7 million primarily from projected energy efficiency savings and net operational savings.
  - \$1.6 million projected revenue surplus primarily from residential consumption-based revenues due to the higher than anticipated consumption in the residential sector as customers continue to spend more at home (e.g. continuation of work from home practices).
  - \$1.6 million projected deficit in user fees received from high strength sewer surcharges, as companies are continuing to put measures in place to reduce their charges for high strength waste.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Wastewater and Treatment Rate Supported Budget as follows:

- a) 50% to reduce authorized debt, and;
- b) 50% to the Sewage Works Reserve Fund to mitigate growth in the infrastructure gap.

As per Policy, the projected \$1.6 million surplus, if realized, will be allocated as follows:

- a) \$0.8 million to reduce authorized debt, and;
- b) \$0.8 million to the Sewage Works Reserve Fund.

### **3.4 COVID-19 Related Grant Funding**

As noted above, significant financial support was provided by the Federal and Provincial governments to municipalities since the onset of the pandemic. This section provides a summary of the funding support projected be utilized/recognized in 2022.

- Social Services Relief Fund (SSRF) – provincial funding, provided in multiple phases, available to assist vulnerable people with their housing needs and to help them find long-term housing solutions.
- Reaching Home Funding: Canada’s Homelessness Strategy – incremental federal funding to prevent the spread of COVID-19 in shelters and to help prevent at-risk Canadians from becoming homeless.
- Phase III Safe Restart Funding: Municipal Transit - On March 3, 2021, it was announced the Government of Ontario was investing an additional \$650 million of funding to address COVID-19 financial impacts on transit. Of the total \$650 million envelope, the City of London’s allocated share amounted to \$18.1 million to be applied against eligible expenditures for the period between April 1, 2021, and December 31, 2021. The Province also indicated that, at its sole discretion and on a case-by-case basis, it may grant extensions of the Phase 3 period to cover costs incurred after December 31, 2021, but prior to January 1, 2023. The City of London has been granted an extension for the Phase 3 period.

- Provincial Child Care and Early Years Re-investment Funding – additional funding support for the child care sector to support increased costs of operating licensed childcare centres during the ongoing COVID-19 crisis.
- Long-Term Care Prevention & Containment Funding – funding available for prevention, containment and pandemic related costs.
- Other Service Support Grants – funding available to support COVID-19 assessment centre costs, vaccination centres, enhanced cleaning, and PPE.

A summary of the City’s portion of these funding streams is detailed in the table below. In most cases, these funding streams are to be applied to specific eligible costs under the various programs and are not available to offset general municipal COVID-19 pressures.

**Table 4 – Projected Funding to be Utilized/Recognized in 2022**

<b>2022 Program/Funding</b>	<b>Amount (in millions)</b>
Provincial Social Services Relief Funding (SSRF)	\$5.4
Reaching Home Funding: Canada’s Homelessness Strategy	\$5.1
Municipal Transit – Safe Restart Funding	\$4.0
Provincial Child Care and Early Years Re-Investment Funding	\$1.7
Long-Term Care Prevention & Containment Funding	\$0.7
Other Service Support Grants	\$1.0
<b>Total Funding</b>	<b>\$17.9</b>

Subject to rounding

## 4.0 Key Issues and Considerations

### 4.1. 2020 to 2022 COVID-19 Financial Impacts & Moving Forward

Since the onset of the COVID-19 pandemic, the City has experienced significant financial impacts, both in terms of lost revenues and additional costs. The Federal and Provincial Governments have taken measures in responding to the economic and social fallout and, as a result, the City of London has received funding for various COVID-19 related pressures. The City was also required to modify operations at various points throughout the pandemic in response to public health restrictions, which have had corresponding financial consequences. A summary of the financial impacts of COVID-19 from 2020 to 2022 for the Property Tax Supported Budget are presented in the table below, including the year-end surplus positions.

**Table 5 – 2020 to 2022 COVID-19 Financial Impacts, Property Tax Supported Budget (\$millions)**

<b>Year</b>	<b>Lost Revenues due to COVID-19 (A)</b>	<b>Additional Costs due to COVID-19 (B)</b>	<b>Financial Impacts due to COVID-19 (C) =(A+B)</b>	<b>COVID-19 Related Grant Funding (D)</b>	<b>All Other Factors (E)</b>	<b>Surplus/Deficit (F) =(C)+(D)+ +(E)</b>
2020	-\$46.8	-\$22.6	-\$69.4	\$47.4	\$44.3	\$22.3
2021	-\$46.8	-\$21.9	-\$68.7	\$45.9	\$42.4	\$19.6
2022 (projected)	-\$16.6	-\$15.7	-\$32.3	\$17.9	\$23.0	\$8.6

Note: Surplus position is before year-end recommendations/allocations.

COVID-19 effects continue to result in financial impacts to the City, however these impacts have gradually declined in 2022 as public health restrictions have generally been lifted and the City and community move past the pandemic to recovery.

Despite the reduced financial impacts, the City must continue to be mindful of impacts into 2023 and future years. It is critical that the City remain cognizant of permanent changes to behaviours and community trends. As part of previous monitoring reports, the City has set aside funds in the Operating Budget Contingency Reserve to provide contingency for future financial impacts as well as social and economic recovery

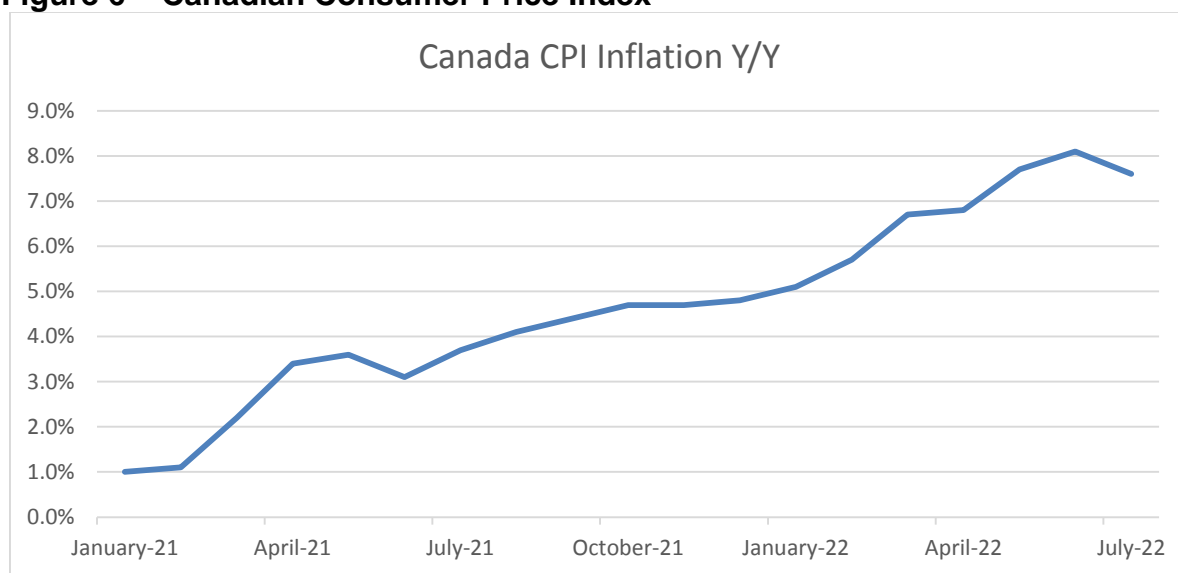
initiatives. These funds will continue to remain available for these purposes. Civic Administration will also continue to advocate to ensure that our Federal and Provincial partners are aware of the need for stable, predictable funding to mitigate any longer-term impacts from the pandemic, particularly related to supporting vulnerable populations.

#### 4.2. Inflation

As Canada's economy has emerged from the pandemic, inflationary pressures have developed in 2021 and 2022. Canada has experienced inflationary levels not seen for over 20 years.

The Consumer Price Index (CPI) is one of the most watched and reported measures in Canada as it relates to inflation. This index represents changes in prices as experienced by Canadian consumers. The CPI target range for the Bank of Canada continues to be one to three percent. Levels of inflation have been significantly higher, with CPI rising 7.6% on a year-over-year basis in July 2022. The following graphic shows year-over-year CPI increases over the last couple of years:

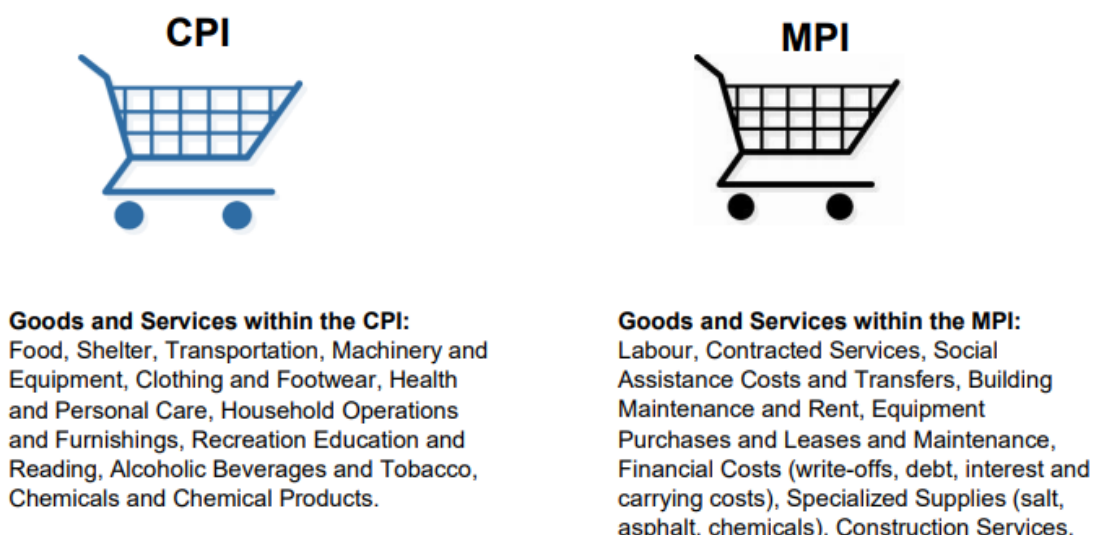
**Figure 6 – Canadian Consumer Price Index**



Source: Refinitiv

It is important to note that CPI measures the inflationary movements of a basket of goods reflective of consumer spending; it does not necessarily represent the inflationary impacts being faced by municipal governments. As highlighted in the 2020-2023 Multi-Year Budget, a municipality's 'basket of goods' is different than CPI. This is referred to as a theoretical Municipal Price Index (MPI).

**Figure 7 – CPI vs MPI**





To further illustrate this, the top three components of the current CPI basket with representative weights are:

- Shelter with a weighting of 29.67%
- Transportation with a weighting of 16.16%
- Food with a weighting of 15.75%

Municipal spending on goods and services is much different when considering the services the City of London provides and incurs input costs on.

Based on a scan of current 2022 operating budgets, fuel costs have been identified as the most significant inflationary pressure to date. Other 'pockets' of inflationary pressures have been noted in specialized materials and supplies, including roadway maintenance materials (road salt, traffic paint, etc.), food costs at RBC Place London, as well as LTC bus maintenance and servicing costs to name a few. These pressures are reflected in the projected year-end position outlined in this report and are currently being managed through offsetting savings in the overall City budget. It is presently anticipated that these inflationary challenges can be mitigated for 2022.

It is important to highlight, however, that inflationary pressures may not be fully impacting the City's budgets yet. There is the potential for further pressures to be experienced by the City into the second half of 2022 and into 2023. The City purchases many goods and services through established contracts which some have fixed pricing. As those contracts come up for renewal, it is anticipated that vendors may implement price increases for the goods or services being procured. Examples being monitored include recently renewed and upcoming IT software license and service agreements and social service provider contract renewals.

Throughout the pandemic, the City of London has strategically set aside funds in contingency reserves from savings resulting from operational shifts in response to the pandemic. At this time, the remaining one-time funds specifically set aside within the broader balance of the contingency reserves to alleviate the lagging financial impacts of COVID-19 are as follows: \$13.6 million in the Operating Budget Contingency Reserve for the Property Tax Supported Budget; \$5.0 million in the Water Budget Contingency Reserve for the Water Rate Supported Budget; and \$3.9 million in the Wastewater Budget Contingency Reserve for the Wastewater and Treatment Budget.

These lagging financial impacts of COVID-19 are now being manifested as a high inflationary environment. An additional \$7 million was also set aside in the Operating Budget Contingency Reserve for the Property Tax Supported Budget for future inflationary pressures through the 2021 Year-end Operating Budget Monitoring Report. As the City's inflationary pressures may become even clearer into 2023 and possibly into the next 2024-2027 Multi-Year Budget, these contingency funds will remain as a cornerstone in Civic Administration's mitigation strategy.

With respect to inflationary pressures on capital expenditures, please refer to the 2022 Mid-Year Capital Budget Monitoring Report.

#### **4.3. Other 2023 Emerging Issues**

Several services have identified potential service delivery pressures that may impact expenditures/revenues in 2023. This section describes some of the more significant issues and the measures taken to mitigate or address these issues. Civic Administration is continuing to actively monitor all emerging issues, including items not listed below. The likelihood of each issue impacting the Multi-Year Budget is rated as high, medium, or low. The definitions of the likelihood measures are as follows:

- High – the likelihood of the issue occurring in 2023 is predicted to be greater than 60%
- Medium – the likelihood of the issue occurring in 2023 is predicted to be between 30% and 60%

- Low – the likelihood of the issue occurring in 2023 is predicted to be less than 30%

#### **Legislative:**

**1. MPAC Reassessment** – (High Likelihood) – The independent Municipal Property Assessment Corporation (MPAC) completes the property value assessments utilized to calculate each taxpayer’s portion of municipal property taxes. Under the Assessment Act, land is valued every four years, with any property value increases phased in over the following four years, and any decreases applied immediately. Tax levy requirements determined by the City are allocated based on the proportion of each property value to the total value of all property in London, inclusive of municipal tax policy decisions.

In 2016, a Property Assessment Notice was mailed from MPAC to all property owners in Ontario. Due to the COVID-19 pandemic, the 2020 Assessment Update was postponed, and property tax has since been calculated using 2016 assessed values (unless there have been changes to a property such as an addition or a change in classification). The Province has announced that 2016 values will be used for the 2023 taxation year as well.

**What we are doing to mitigate/address the issue:** It should be noted that the municipality does not receive additional tax revenue when the existing properties in the municipality experience an increase in assessed value. Total tax levy requirements are determined by the municipal budget process (this effectively determines the “size of the pie” that taxes will be collected to fund). The percentage that is supported by each property class is determined by tax policy and the relative size of the property class based on assessed value (in other words, “how the pie is to be sliced” between the different property classes such as residential, industrial, commercial, etc.). Tax policy is approved annually by Council separately after budget approval.

Any updates from MPAC or the Province will be monitored by City Administration. The City will continue to educate the community through the budgetary process and tax policy process on the impacts of MPAC and reassessment. It is currently unclear what the impact of the next reassessment will be on the relative tax burden between property classes.

**2. Garbage Recycling & Composting** – (High Likelihood) - In June 2021 the final regulation to transition the Blue Box program from 100% municipal responsibility and 50% funding responsibility to 100% industry responsibility and funding was made and filed under the Resource Recovery and Circular Economy Act, 2016. Under the regulation, London will start the process of transition to the new framework as of July 1, 2023.

**What we are doing to mitigate/address the issue:** As noted in previous reports, estimated savings to the City will range between \$0.5 million and up to \$4 million by 2026. The actual amount will be based on a negotiation with Industry (Producer Responsibility Organization – PRO) and our current contractor, Miller Waste Systems. Once further information is known, adjustments to the budget will be brought forward to a future annual budget update process. Some of the savings noted above may be realized in the latter half of 2023; however as details and the mechanisms for transition are currently being developed by the Resource Productivity & Recovery Authority, details will not be known until mid to late 2022.

**3. London Police Services** – (High Likelihood) - Provincial Funding under the Court Security and Prisoner Transportation grant program has been reviewed for the first time since 2008. The review was completed in January 2022. A phased response will be taken to improve the current program, and there may be changes to the overall program and funding envelope. As detailed in the Court Security and Prisoner Transportation Program Transfer Payment Agreement report to the Corporate Services Committee on March 28, 2022, the funding allocation for 2022 is \$0.5 million lower than the 2021 allocation and amount anticipated for planning purposes for 2022. The funding shortfall

will represent a potential budget pressure for the London Police Service for 2022 and possibly for future years.

**What we are doing to mitigate/address the issue:** The Ontario Association of Chiefs of Police are in continuous contact with the Ministry to ensure the perspective of local police services is communicated. The funding shortfall will be monitored in relation to program expenditures throughout 2022 through the City's and London Police Service's regular budget monitoring processes.

**4. Social & Health Services - Middlesex-London Health Unit – (Medium Likelihood) -** In 2019, the Province of Ontario announced planned changes to the funding model for public health in Ontario. This included the migration of the shared funding model to a 70:30 split between the province and municipalities, noting that the shift was capped at a 10% increase in the municipal share for 2020. Subsequent to the onset of the COVID-19 pandemic, it was announced that mitigation funding would be provided to fully offset the change in cost-sharing for both 2020 and 2021. The 2022 budget includes \$1,361,300 of mitigation funding. It is currently unclear whether the mitigation funding will continue to be provided in 2023 and future years.

Additionally, the Middlesex-London Health Unit, like other health units, has incurred significant costs in responding to the COVID-19 pandemic. To date, the expectation has been that these costs will be fully funded by the Province. However, there is uncertainty as to whether the Province will continue reimbursing public health units for these costs in future years.

**What we are doing to mitigate/address the issue:** Civic Administration will continue to meet regularly with representations from the Health Unit to receive regular updates on provincial funding for public health. Opportunities for collaboration will also be explored to ensure that the Province is aware of the importance of stable, predictable funding for public health.

**5. Social & Community Support Services – (Low Likelihood) - Social Assistance Transformation -** On February 11, 2021, the Province of Ontario released an update of their plans for Social Assistance Transformation and Human Services Integration. This plan includes centralizing functions, employment services transformation, a human services integration and a change to the funding model and accountabilities. This transformation is expected to occur over the period of 2020 to 2024. The anticipated roll out is 2024, however, the implementation timeline may be subject to changes. In March 2022, it was announced timelines would be delayed and to date, updated timelines have not been provided.

**What we are doing to mitigate/address the issue:** Financial impacts related to a change in the funding model are unknown at this time as the Ministry plans to involve municipalities in the co-design of the model. The Ontario Works Administrator is working closely with the Province and colleagues across the Province to ensure London's input on the desired state of service delivery is known. London will actively participate in any prototype opportunities.

**6. Social & Community Support Services – (Low Likelihood) - Employment Services Transformation (EST) -** The Province of Ontario is transforming employment services across Ontario. On July 2, 2019, the Government of Ontario announced that the new employment services model would first be implemented in the following 3 prototype regions: Region of Peel, Hamilton-Niagara and Muskoka-Kawartha. Full implementation will be phased in over the next several years.

On June 11, 2021, the Ministry announced the launch of EST to 9 additional catchment areas across the province. London is one of these catchment areas. The expansions will be sequenced in several stages between now and the end of 2023. On July 13, 2021, the City responded to the Ministry's Request for Qualification and submitted a single-applicant bid for Service System Manager - Employment Services Transformation for the London Region (London, Middlesex, Elgin and Oxford). Results

are anticipated to be announced in late 2022. If the City is successful in its application, there will be a transition period in 2023 to establish operations within the catchment area before the Integrated Employment Service begins in January 2024.

While 2023 funding has yet to be confirmed by the province, there is no anticipated impact to 2023 funding levels. However, if the City is not selected as the service delivery provider this could impact the City's provincial funding by more than 20% starting in 2024.

**What we are doing to mitigate/address the issue:** The Ontario Works Administrator is working closely with the Ministry and colleagues across the province to ensure London's input on the desired state of employment service delivery is known. As noted above, the City has also submitted a bid to be the service system manager for the London region.

#### **Cost/Revenue Driver:**

**1. Multiple Services – Climate Emergency** – (High Likelihood) - Given the council declared climate emergency, the City's Climate Emergency Action Plan's (CEAP) goal is to achieve net-zero community greenhouse gas (GHG) emissions by 2050. The CEAP will have significant and wide-ranging financial implications that will affect future municipal budgets.

**What we are doing to mitigate/address the issue:** On April 12, 2022, Council approved London's Climate Emergency Action Plan. As articulated in the approved CEAP, sufficient funding exists in approved budgets to implement the required actions for 2022 and 2023. An implementation plan, inclusive of financial impacts, will be developed for those initiatives requiring new funding to inform the development of the 2024-2027 Multi-Year Budget and future budgets processes.

**2. Information Security** – (High Likelihood) – Considering the pace at which the Information Security environment is evolving, investments will be required to keep up to date. Organizations around the world continue to face a growing number of cyberattacks. Recently, several municipalities in our region have been targets of cybersecurity attacks with significant impacts to the delivery of public service.

**What we are doing to mitigate/address the issue:** Information Technology Services will continue to expand on training initiatives for all employees; however, additional funding is required for Information Security and a corresponding business case is anticipated to be submitted in the forthcoming 2023 Annual Budget Update.

**3. Social & Health Services – Land Ambulance** - (High Likelihood) – The COVID-19 pandemic has exacerbated existing challenges within the healthcare system, including those with the land ambulance system. Ambulance services in London & Middlesex, delivered by the Middlesex-London Paramedic Service (MLPS) under the responsibility of the County of Middlesex as the designated service system manager, continue to experience growing demand, with code 1-4 call volumes up almost 7% between January 1, 2022 and July 31, 2022 compared to the same period in 2021 (according to an August 30, 2022 report to County Council). This continues the trend in growing service demand that was observed in the years preceding the COVID-19 pandemic. Compounding the growing demand, offload delays at area hospitals continue to be problematic and, in fact, have accelerated in 2022. For January 1, 2022 to July 31, 2022, MLPS reported offload delays at London Health Sciences Centre totaling 18,615 hours, compared to 17,690 hours lost to offload delays for the entirety of 2021. MLPS is in the process of developing its 2022-2026 Master Plan which will identify strategies to address these and other challenges facing the ambulance service. It is anticipated that additional financial resources, perhaps in excess of those currently included in the 2020-2023 Multi-Year Budget, may be required.

**What we are doing to mitigate/address the issue:** At the time of writing, Civic Administration is liaising with the County to obtain information on the budgetary requirements for 2023. In the event that the required resources exceed the approved

2023 budget, a budget amendment may be brought forward in the 2023 Budget Update process. Civic Administration will also continue to meet regularly with the County to stay apprised of future anticipated pressures and needs and will collaborate on joint advocacy opportunities with the County to address challenges with the ambulance service where possible.

**New Council Direction:**

**1. Housing – Roadmap to 3,000 Affordable Housing Units Implementation Plan – (High Likelihood)** - At the November 23, 2021 Community and Protective Services Committee meeting, the Committee received a report detailing the proposed implementation of the “Roadmap to 3,000 Affordable Units” Action Plan. This plan, intended to accelerate the creation of 3,000 affordable housing units by 2026, included significant financial impacts which were articulated in the report. A strategy for addressing the capital budget impacts associated with the plan was outlined in the report. The report also included direction for Civic Administration to “temporarily fund the 2022 operating costs of this plan from the Operating Budget Contingency Reserve, and to bring a budget amendment business case to the 2023 Annual Budget Update and 2024-2027 Multi-Year Budget that establishes a permanent funding source for the portable benefits/rent supplements and ongoing resources required to support the Roadmap implementation plan.” Total 2022 impacts are estimated to be approximately \$970,000, increasing to approximately \$1.8 million in 2023, with further incremental increases in 2024-2026. As a result, this will represent an operating budget pressure in the upcoming years.

**What we are doing to mitigate/address the issue:** As directed by Council, Civic Administration will fund the 2022 costs from the Operating Budget Contingency Reserve and will prepare a budget amendment business case for the 2023 Annual Budget Update and 2024-2027 Multi-Year Budget that establishes a permanent funding source for these costs.

## Conclusion

The Property Tax, Water and Wastewater and Treatment Budgets are continuing to incur financial impacts in 2022 due to COVID-19, albeit not to the same degree as 2020 and 2021 and partially offset by significant Federal and Provincial support that has been made available since the onset of the pandemic. Additionally, net operational savings are projected due to various factors. Combining the Federal and Provincial funding support with the net operational savings, the Property Tax, Water, and Wastewater and Treatment Budgets are projecting to end the year in a surplus after covering the residual deficit impacts of COVID-19. Civic Administration continues to monitor impacts of inflation on the operating budget and, at this time, is managing pressures through existing budgets. Contingency funds remain in place to offset possible future inflation pressures on the operating budget if required.

**Prepared by:** Rick Lamon, CPA, CMA, Manager, Accounting and Reporting and Martin Galczynski, CPA, CA, Manager, Financial Planning and Policy

**Submitted by:** Kyle Murray, CPA, CA, Director, Financial Planning and Business Support

**Recommended by:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

## Appendix A – 2022 Projected Year-End Financial Summary

Property Tax Supported Budget – Civic Service Areas (\$millions)

Category	Lost Revenues due to COVID-19	Additional Costs due to COVID-19	COVID-19 Related Grant Funding	All Other Factors	Surplus / Deficit
Centennial Hall	-0.1	0.0	0.0	0.1	0.0
Arts, Culture & Heritage Advisory & Funding	0.0	0.0	0.0	0.1	0.1
Heritage	0.0	0.0	0.0	0.0	0.0
Economic Development	0.0	0.0	0.0	-0.1	-0.1
Community Improvement/BIA	0.0	0.0	0.0	0.0	0.0
Climate Change & Environmental Stewardship	0.0	0.0	0.0	0.2	0.2
Garbage Recycling & Composting	0.0	-0.1	0.0	5.7	5.6
Neighbourhood & Recreation Services	-1.7	0.0	0.0	1.5	-0.2
Parks & Urban Forestry	0.0	0.0	0.0	0.0	0.0
Building Approvals	0.0	0.0	0.0	0.2	0.2
Planning Services	0.0	0.0	0.0	-0.1	-0.1
Development Services	-0.6	0.0	0.0	0.6	0.0
Animal Services	-0.6	0.0	0.0	0.1	-0.5
By-law Enforcement	-0.5	0.0	0.0	0.4	-0.1
Emergency Management & Security Services	0.0	-0.7	0.5	0.0	-0.2
Fire Services	0.0	-0.1	0.0	0.1	0.0
Municipal Housing	0.0	0.0	0.0	0.0	0.0
Land Ambulance	0.0	0.0	0.0	0.3	0.3
Long Term Care (Dearness)	0.0	-1.2	0.7	1.0	0.5
Social and Community Support	0.0	-12.4	12.4	3.6	3.6
Parking	-3.1	0.0	0.0	0.6	-2.5
Roadways	0.0	-0.3	0.0	1.0	0.7
Rapid Transit	0.0	0.0	0.0	-0.5	-0.5
Corporate Services	0.0	-0.4	0.2	4.7	4.5
Corporate Planning & Administration	0.0	0.0	0.0	0.3	0.3
Council Services	0.0	0.0	0.0	0.3	0.3
Public Support Services	-2.2	0.0	0.0	1.2	-1.0
Financial Management	-0.5	0.0	0.0	-2.6	-3.2
<b>Total Civic Areas</b>	<b>-9.2</b>	<b>-15.2</b>	<b>13.8</b>	<b>18.5</b>	<b>7.9</b>
<b>Surplus/Deficit</b>					

Subject to rounding

Property Tax Supported Budget – Boards & Commissions (\$millions)

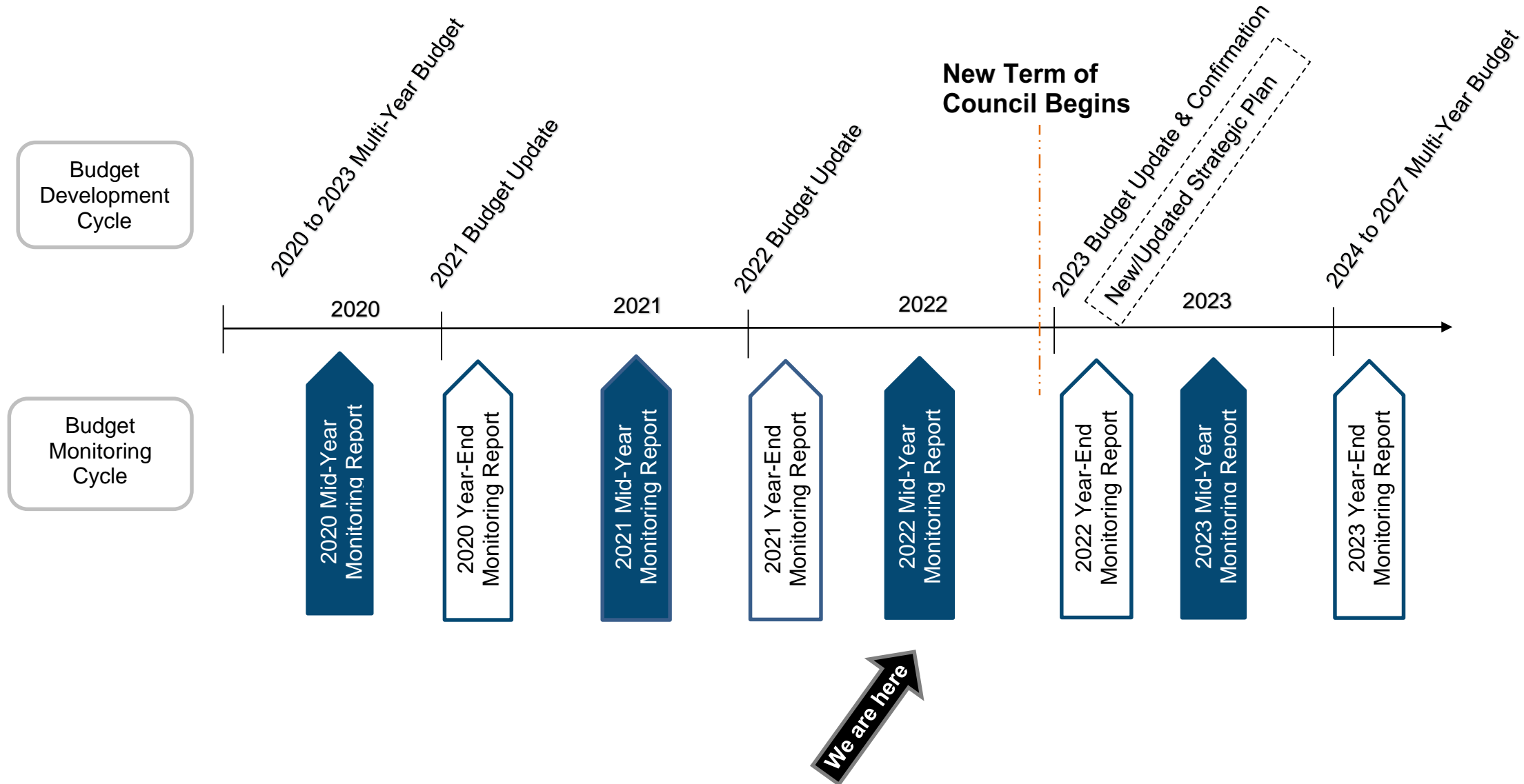
<b>Category</b>	<b>Lost Revenues due to COVID-19</b>	<b>Additional Costs due to COVID-19</b>	<b>COVID-19 Related Grant Funding</b>	<b>All Other Factors</b>	<b>Surplus / Deficit</b>
Museum London	-0.1	0.0	0.1	-0.1	-0.1
Eldon House	0.0	0.0	0.0	0.0	0.0
London Public Library	-0.4	-0.1	0.0	0.5	0.0
RBC Place London	-0.7	0.0	0.0	0.7	0.0
Tourism	0.0	0.0	0.1	-0.1	0.0
Covent Garden Market	-0.1	0.0	0.0	0.1	0.0
Conservation Authorities	0.0	0.0	0.0	0.1	0.1
London Police Services	-0.1	-0.1	0.0	0.2	0.0
Housing Development Corporation	0.0	0.0	0.0	0.0	0.0
London & Middlesex Community Housing	0.0	0.0	0.0	0.0	0.0
Middlesex-London Health Unit <sup>1</sup>	0.0	0.0	0.0	0.0	0.0
London Transit Commission	-6.1	-0.3	4.0	3.2	0.8
<b>Total Boards &amp; Commissions Surplus/Deficit</b>	<b>-7.4</b>	<b>-0.5</b>	<b>4.1</b>	<b>4.5</b>	<b>0.7</b>

Subject to rounding

Note 1: Consistent with 2020 and 2021 reporting, Middlesex-London Health Unit excludes costs and grant funding related to case/contact management and operation of vaccine clinics funded by the Ministry of Health.

## Appendix B – Multi-Year Budget Cycle

The timeline below illustrates when Council will receive the various reports that form the 2020 to 2023 Multi-Year Budget governance and accountability process.







## **2022 Mid-Year Budget Monitoring Overview**

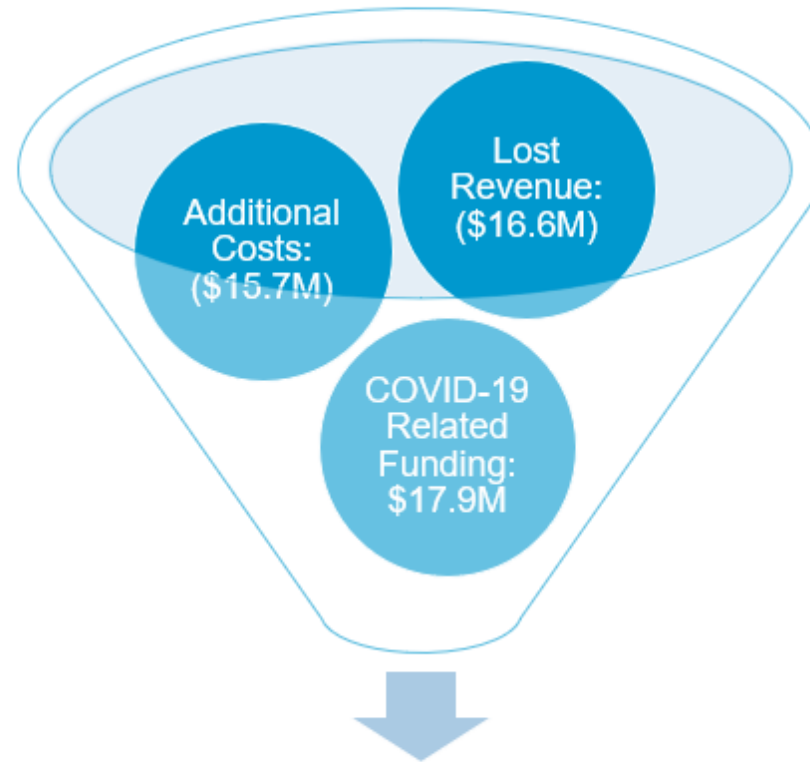
## Summary

- The City is projecting total 2022 COVID financial impacts (lost revenues & additional costs) of \$32.3M (2021: \$68.7M)
- Significant Federal and Provincial support is projected through various programs of \$17.9M (2021: \$45.9M)
- 2022 projected COVID impacts net of Federal/Provincial support = \$14.4M (\$32.3M - \$17.9M)
- Other net budgetary savings of \$23.0M are projected due to delayed Green Bin implementation, higher than anticipated investment income, etc. (2021: \$42.4M)
- 2022 projected net surplus = \$8.6M (\$23.0M - \$14.4M)

## Summary – continued

- The \$8.6M surplus, if realized, is recommended to be allocated according to the Surplus/Deficit Policy:
  - 50% to reduce authorized debt (\$4.3M)
  - 25% to Community Investment Reserve Fund (\$2.15M)
  - 25% to Infrastructure Gap Reserve Fund (\$2.15M)
- Operating budget inflationary pressures appear to be concentrated in certain areas (e.g. fuel, specialized materials, etc.). Overall, 2022 operating inflationary impacts appear manageable & are incorporated in the reported figures.
- Inflationary pressures are also impacting the capital budget, noting that various “tools” are available to manage these pressures through 2022 & 2023 – e.g. managing project scope, project prioritization, additional reserve fund or debt financing where appropriate, etc.

## Projected 2022 COVID-19 Financial Impacts Summary



**2022 Projected Net COVID-19 Impacts: (\$14.4M)**

Note: All figures throughout subject to rounding and refer to Property Tax Supported Budget only.

## Projected 2022 COVID-19 Financial Impacts – Gross Impact

### Lost Revenues: (\$16.6M)

#### Civic Service Areas: (\$9.2M)

- Parking
- POA
- Neighbourhood & Recreation Services

#### Boards & Commissions: (\$7.4M)

- London Transit
- RBC Place

+

### Additional Costs: (\$15.7M)

#### Civic Service Areas: (\$15.2M)

- Housing Stability Services
- Child Care
- Long-term Care
- Corp. Security & Emergency Mgmt.

#### Boards & Commissions: (\$0.5M)

=

### Total COVID-19 Impacts: (\$32.3M)

#### Civic Service Areas: (\$24.4M)

#### Boards & Commissions: (\$7.9M)

## Projected 2022 COVID-19 Financial Impacts – Net Impact

### Total COVID-19 Impacts: (\$32.3M)

Civic Service Areas: (\$24.4M)

Boards & Commissions: (\$7.9M)

+

### COVID-19 Related Grant Funding: \$17.9M

Civic Service Areas: \$13.8M

- Social Services Relief Fund
- Reaching Home
- Children's Services
- Long-term Care

Boards & Commissions: \$4.1M

- Safe Restart (Transit)

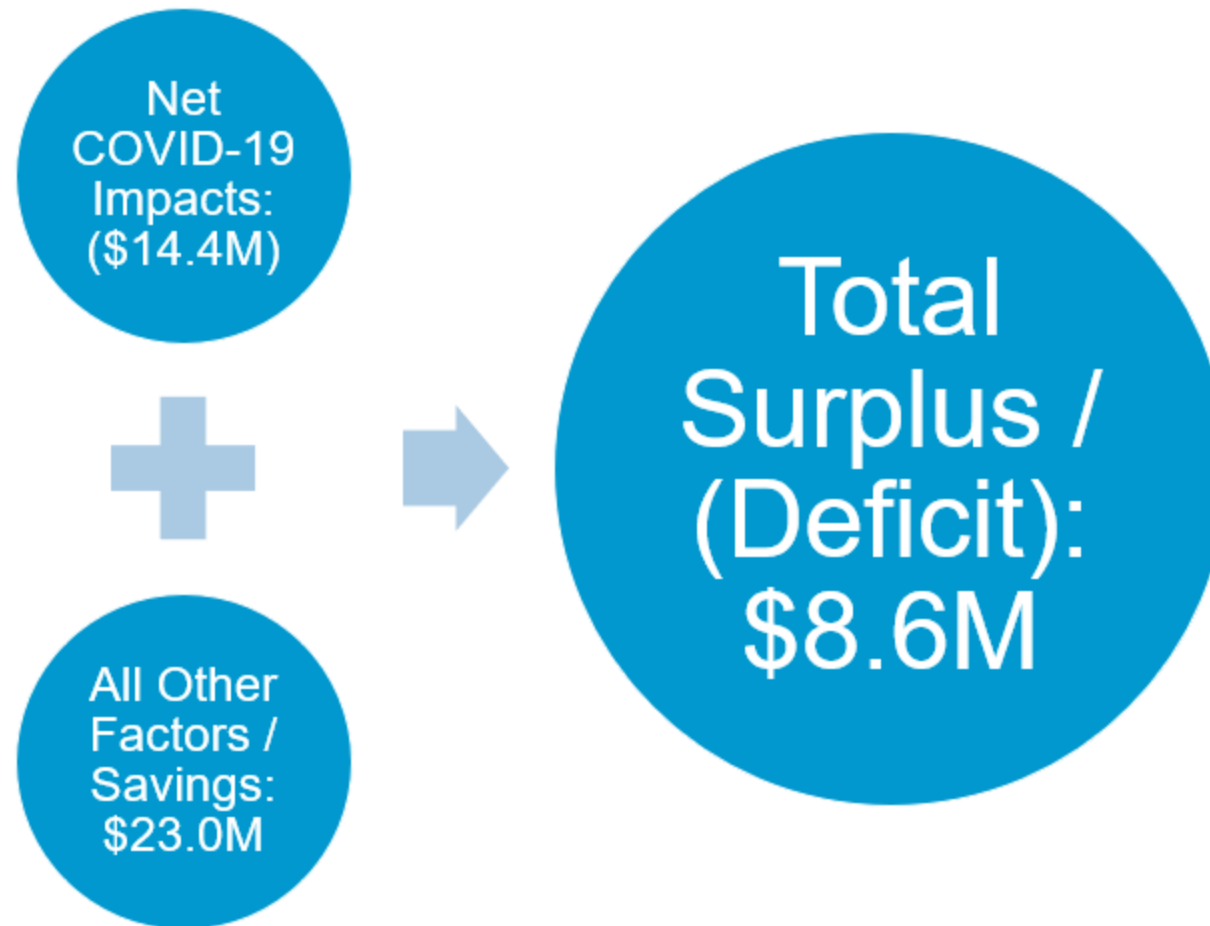
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### Net COVID-19 Impacts: (\$14.4M)

Civic Service Areas: (\$10.6M)

Boards & Commissions: (\$3.8M)

## Pulling Together the 2022 Projected Surplus/Deficit



## Recommended Allocation of Projected 2022 Surplus per Surplus/Deficit Policy

**\$8.6M Surplus**

50% to Reduce  
Authorized but  
Unissued Debt

\$4.3M

25% to the Capital  
Infrastructure Gap  
Reserve Fund

\$2.15M

25% to the  
Community  
Investment  
Reserve Fund

\$2.15M



## Water Budget Projected 2022 Year-end Position & Recommended Allocation per Policy

\$3.8M Surplus

50% to Reduce  
Authorized but  
Unissued Debt

\$0 (no authorized debt  
available to reduce)

50% to Water Works  
Renewal Reserve  
Fund

\$3.8M

## Wastewater & Treatment Budget Projected 2022 Year-end Position & Recommended Allocation per Policy

\$1.6M Surplus

50% to Reduce  
Authorized but  
Unissued Debt

\$0.8M

50% to Sewage  
Works Renewal  
Reserve Fund

\$0.8M