

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

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

Subject: 2022 Year-End Operating Budget Monitoring Report

Date: April 11, 2023

Recommendation

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

- a) The 2022 Operating Budget Year-end 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 positions are outlined below:
 - i) Property Tax Supported Budget surplus of \$12.3 million.
 - ii) Water Rate Supported Budget surplus of \$6.6 million.
 - iii) Wastewater and Treatment Rate Supported Budget surplus of \$2.0 million.

It being noted that Property Tax, Water, and Wastewater and Treatment Budget surplus will be allocated in accordance with the Council Approved Surplus/Deficit Policy.

- b) The presentation (Appendix C) providing an overview of 2022 Year-End Budget Monitoring **BE RECEIVED** for information.

Note: The reported year-end position is subject to completion of the financial statement audit.

Executive Summary

This report provides a summary of the 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 incurred a total of \$35.5 million of COVID-19 financial impacts in 2022 (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 utilizing a total of \$17.4 million in 2022 through various programs announced this year and unused funding carried over from 2021. In addition, net operational savings of \$30.4 million were realized 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 ended the year in a surplus position of \$12.3 million for the Property Tax Supported Budget.

The Water Rate Supported Budget realized a revenue surplus of \$3.9 million primarily driven by surplus from residential consumption-based revenues. Combined with a \$2.7 million surplus from various operational costs savings, these factors resulted in the Water Rate Supported Budget ending the year with a \$6.6 million surplus.

The Wastewater and Treatment Rate Supported Budget incurred additional costs of \$0.1 million related to COVID-19. A total of \$2.3 million in revenue surplus was realized from user fees, primarily driven by residential consumption-based revenues. This was partially offset by a \$0.2 million net deficit in operational costs, driven by a significant increase in chemical costs during 2022 due to inflation. These factors result in the Wastewater and Treatment Budget ending the year with a surplus of \$2.0 million.

The Municipal Council approved Surplus/Deficit Policy provides for the allocation of Property Tax, Water, and Wastewater and Treatment year-end surplus, and 2022 budget surpluses are being applied as per the Council Approved Surplus/Deficit policy.

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>

Strategic Priorities and Policy Committee, meeting on September 20, 2022, Agenda Item 2.4, 2022 Mid-Year Operating Budget Monitoring Report

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=94608>

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 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 spending against the budget.

Each year Civic Administration submits two operating 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 purpose of this report is to:

- Provide an overview of the 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 net financial impacts of COVID-19.
- Provide information on the allocation of 2022 year-end surplus and obtain Council's approval as applicable.
- 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 continued to have a financial impact on the City's Property Tax Supported Budget. The City incurred a total of \$35.5 million of COVID-19 financial impacts in 2022 (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 utilizing a total of \$17.4 million in 2022 through various programs announced this year and unused funding carried over from 2021. In addition, net operational savings of \$30.4 million were realized as a result of various factors as outlined below. Combining the net COVID-19 financial impacts with the net operational savings, the City ended the year in a surplus position of \$12.3 million for the Property Tax Supported Budget. The surplus equates to 1.8% of the net Property Tax Supported Budget or 1.1% of gross expenditures for the Property Tax Supported Budget. Table 1 provides a summary breakdown of the year-end position.

Table 1 – 2022 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)
Property Tax Supported Civic Service Areas Budgets	-\$9.6	-\$14.5	-\$24.1	\$13.1	\$22.4	\$11.4
Boards and Commissions Budgets	-\$11.1	-\$0.3	-\$11.4	\$4.4	\$8.0	\$0.9
Total Civic Areas and Boards and Commissions	-\$20.7	-\$14.8	-\$35.5	\$17.4	\$30.4	\$12.3

Total Civic Areas and Boards and Commissions Surplus \$12.3
Subject to rounding

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

- Lost revenues of \$20.7 million (2021: \$46.8 million). Main drivers include lost transit revenue due to a gradual recovery in transit ridership, lost parking fee revenues due to continued reduced parking demand and use of free parking promo codes intended to support recovery from the pandemic, and lost user fee revenue due to closures in January 2022 at community centres and recreation facilities and gradual return to regular operations.
- Additional costs incurred of \$14.8 million (2021: \$21.9 million), primarily driven by additional expenditures to provide temporary supports for vulnerable populations, additional operating costs for long-term care (Dearness Home) including third party testing requirements and security, and additional operating funding for childcare providers.
- Offset by grant funding of \$17.4 million (2021: \$45.9 million) primarily driven by Social Services Relief Funding, Safe Restart Agreement transit funding, Reaching Home Funding, additional Child Care COVID-19 Funding, and additional Long-Term Care funding.
- Also offset by other factors of \$30.4 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:

- London Transit Commission – savings in operating costs due to gradual recovery in demand.
- Financial Management – investment revenue surplus due to higher interest rates and cash balances than budgeted.
- Corporate Services – reduced utility demand at City facilities due to modified operations because of COVID-19 restrictions in the first part of the year. Further savings realized due to delays in implementing various ITS software applications, consulting contracts, and savings in education and training, all attributable to pandemic related operational impacts.
- Garbage, Recycling and Composting – delayed implementation of Green Bin program, and increased recycling revenues.

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 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 \$12.3 million surplus will be allocated approximately as follows:

- a) \$6.2 million to reduce authorized debt;
- b) \$3.1 million to the Community Investment Reserve Fund, and;
- c) \$3.1 million to the Capital Infrastructure Gap Reserve Fund.

3.2 2022 Water Rate Supported Operating Budget Monitoring

The 2022 Water Rate Supported Budget surplus is \$6.6 million (Table 2). The surplus equates to 7.3% of the Water Revenue Budget.

Table 2 – 2022 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	\$6.6	\$6.6

Total Water Surplus **\$6.6**
Subject to rounding

The year-end position is driven by the following:

- All other factors resulting in a net surplus of \$6.6 million:
 - A \$3.9 million 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), as well as an increase in residential growth, which has contributed to increased consumption.
 - A \$2.7 million surplus driven by various operational cost savings. This includes a Purchase of Water surplus due to a meter error discovered at

the Arva pumping station that resulted in an overstated purchase of water budget in 2022, which will be adjusted in 2023 in preparation for the next Multi-Year Budget.

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 \$6.6 million surplus 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) \$6.6 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 surplus is \$2.0 million (Table 3). The surplus equates to 1.8% of the Wastewater and Treatment Revenue Budget.

Table 3 – 2022 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	\$2.1	\$2.0
Total Wastewater and Treatment Surplus						\$2.0

Subject to rounding

The 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 \$2.1 million:
 - \$2.3 million net revenue surplus from user fees; This consisted of \$3.7 million of surplus primarily from residential consumption-based revenues due to the higher than anticipated consumption as customers continue to spend more at home (e.g., continuation of work from home practices) and residential growth, partially offset by a \$1.3 million deficit in high strength sewer surcharges, as companies are continuing to put measures in place to reduce their charges for high strength waste.
 - \$0.2 million net deficit in operational costs; This consisted of \$1.1 million in chemical cost overruns from significant cost increases due to inflation, partially offset by \$0.8 million in other operational savings, primarily energy efficiency measures.

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 \$2.0 million surplus will be allocated as follows:

- a) \$0.9 million to reduce authorized debt (current balance of authorized debt), and;
- b) \$1.1 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 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 was 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 – Funding Utilized/Recognized in 2022

2022 Program/Funding	Amount (in millions)
Provincial Social Services Relief Funding (SSRF)	\$5.4
Municipal Transit – Safe Restart Funding	\$4.3
Reaching Home Funding: Canada’s Homelessness Strategy	\$3.8
Provincial Child Care and Early Years Re-Investment Funding	\$1.7
Long-Term Care Prevention & Containment Funding	\$1.7
Other Service Support Grants	\$0.5
Total Funding	\$17.4

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)

Year	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)
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	-\$20.7	-\$14.8	-\$35.5	\$17.4	\$30.4	\$12.3

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. 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.

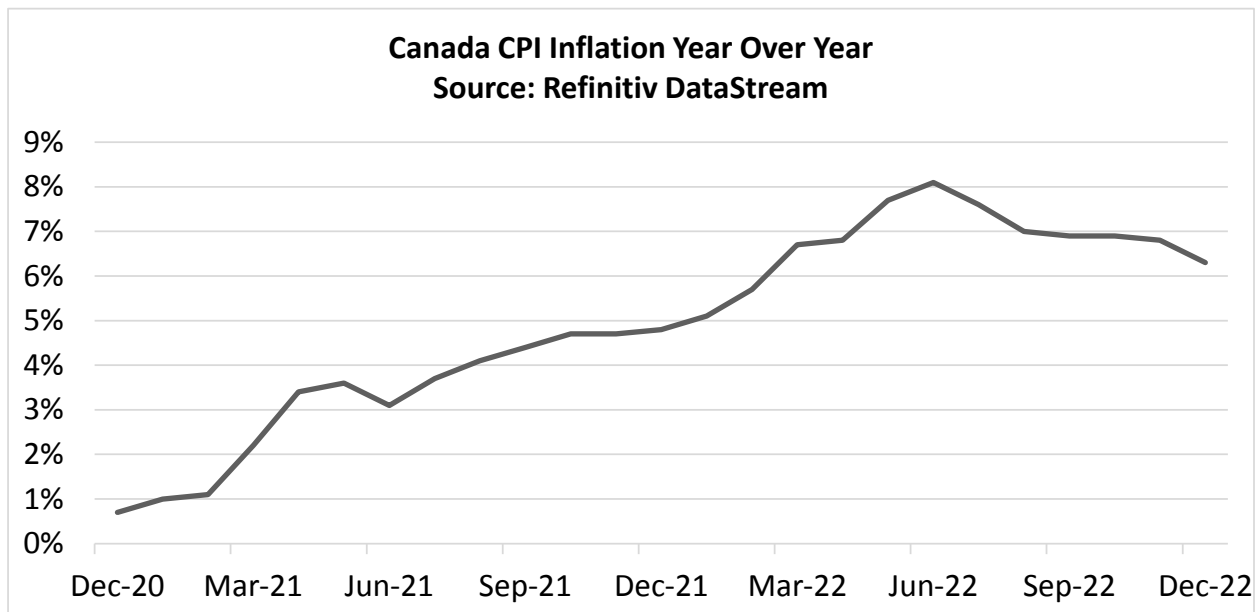
The operating budget monitoring report format will return to a reporting structure similar to pre-COVID-19 monitoring reports effective for the 2023 Mid-Year Monitoring Report. Like the 2022 Year-end Monitoring Report, the report will continue to focus on operating budget results by service grouping, allocation of surplus/deficit, summary of emerging issues and any other pertinent updates. The main change to highlight is that the City will no longer segregate and separately report the net financial impacts of COVID-19, given impacts have gradually declined as public health restrictions have generally been lifted and operations have resumed to regular service levels. Reporting will return to highlighting significant driving factors of service areas' budget variances. Despite the change in reporting, as mentioned previously, the City will continue to monitor long-term impacts, including permanent changes to behaviours and trends and adjust budgets accordingly.

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 in 2022, with CPI peaking at 8.1% in June from the same time last year and rising 6.8% on an annual average basis. The increase in 2022 was a 40-year high, the largest increase since 1982. In comparison, the average annual increase was 3.4% in 2021 and 0.7% in 2020. The following graphic shows year-over-year CPI increases over the last couple of years:

Figure 6 – Canadian Consumer Price Index



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

<p>CPI</p> 	<p>MPI</p> 
<p>Goods and Services within the CPI: Food, Shelter, Transportation, Machinery and Equipment, Clothing and Footwear, Health and Personal Care, Household Operations and Furnishings, Recreation Education and Reading, Alcoholic Beverages and Tobacco, Chemicals and Chemical Products.</p>	<p>Goods and Services within the MPI: Labour, Contracted Services, Social Assistance Costs and Transfers, Building Maintenance and Rent, Equipment Purchases and Leases and Maintenance, Financial Costs (write-offs, debt, interest and carrying costs), Specialized Supplies (salt, asphalt, chemicals), Construction Services.</p>

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 and various contracted services throughout the organization have been identified as the most significant inflationary pressures to date. Other ‘pockets’ of inflationary pressures have been noted in specialized materials and supplies, including chemical costs (Wastewater and Treatment Budget), roadway maintenance materials such as road salt, as well as London Transit Commission bus maintenance and servicing costs, to name a few.

These pressures are reflected in the year-end position outlined in this report and are currently being managed for 2023 through offsetting savings in the overall City budget.

It is important to highlight 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 2023 and further into the 2024-2027 Multi-Year Budget. The City purchases many goods and services through established contracts, some of which have fixed pricing. As more of 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 Year-End 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. This listing is not meant to be exhaustive and only focuses on potential 2023 pressure/impacts; it does not necessarily include impacts for 2024 and beyond that may need to be dealt with as part of the 2024-2027 Multi-Year Budget. Emerging issues apply to the Property Tax Supported Operating Budget, unless otherwise stated.

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. Bill 23 (High Likelihood) – The Ontario Legislative Assembly passed Bill 23, the More Homes Built Faster Act, 2022 on Monday, November 28, 2022. Royal Assent was granted the same day. As described in the November 22, 2022 report to the Strategic Priorities and Policy Committee, several Bill 23 changes have immediate impacts on City services and present new financial pressures.

Although direct impacts from the changes arising from Bill 23 will be mainly associated with the capital budget, base operating budgets for several Service Areas will need to be increased to fund new staff, or hiring priorities will need to be adjusted as position vacancies emerge. Additional funding will also be required for DC exemptions and discounts prescribed in the legislation. Several Bill 23 requirements are still unknown as future regulations will be issued by the Province, the content and timing of which have not been communicated to municipal stakeholders.

What we are doing to mitigate/address the issue: Staff has been working diligently to confirm details on new Bill 23 requirements, adjustments, and prohibitions, and to clarify the timing of when the City will be impacted by the various legislative changes. Where possible, implementation plans have been prepared and operational actions are being taken for emergent requirements.

Staffing needs and associated costs will be further refined as part of the upcoming 2024-2027 Multi-Year Budget process. Further, a separate report will be provided to Council in the coming months to recommend the preferred approach to addressing revenue shortfalls associated with mandatory DC exemptions. The Council endorsed approach and refined cost estimates will also inform the upcoming 2024-2027 Multi-Year Budget.

2. Bill 93 – Water and Wastewater and Treatment Budget (High Likelihood) – Impacts from Bill 93, an Act to amend the Building Broadband Fast Act 2021 and the Ontario Underground Infrastructure Notification System Act, 2012, and its legislative changes have significantly increased the City's costs related to providing utility locates through contracted vendor(s). The existing utility locate contract expires in 2023.

What we are doing to mitigate/address the issue: A working group has formed to explore a number of potential options and associated implications. If adjustments to future budgets are required, they will be brought forward as part of the 2024-2027 Multi-Year Budget.

3. 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 \$1.0 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 the 2024-2027 Multi-Year Budget. Some of the savings noted above may be realized in the latter half of 2023 subject to final negotiations with the PRO known as Circular Materials Ontario (CMO). These would be additional savings beyond the \$1.5 million that was an approved reduction as part of the 2023 Annual Budget update.

4. Long-Term Care and Housing Stability Services (High Likelihood) – Potential reduction of COVID funding – There are continued COVID-19 expenditures to maintain resident safety with reduced Ministry funding for Long-Term Care. In addition, previously provided funding was made available through the SSRF stream to support vulnerable populations. This funding has been depended on to support operating costs and increases to programming, with no further funding commitments announced for 2023.

What we are doing to mitigate/address the issue: Civic Administration is assessing current levels of COVID-19 support and looking at more cost-efficient alternative approaches for Long-Term Care. 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.

5. Social & Community Support Services (High 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, 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: Funding impacts for 2023 as it relates to caseload, resources, etc. 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 (High 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-Kawarths. 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). In February 2023, it was announced the City of London was the successful applicant to administer Regional Employment Services for the London region. There will be a transition period in 2023 to establish operations within the catchment area before the Integrated Employment Service begins in January 2024.

Associated with the transfer of employment responsibilities to Service System Managers under the Ministry of Labour, Immigration, Training and Skills Development, the Ministry of Children, Community and Social Services recently advised the City funding to deliver OW services for the London Consolidated Municipal Service Manager will be reduced by 22% (\$5.7 million) effective 2024. As the City of London was selected as the successful applicant for employment services, this funding reduction is less impactful it would have otherwise been, as many associated costs previously funded through the Provincial OW funding envelope will be shifted to the new funding envelope provided by the Ministry of Labour, Immigration, Training and Skills Development. The net potential budgetary impact starting in 2024 is currently estimated at approximately \$500,000.

What we are doing to mitigate/address the issue: With the City of London being the successful candidate, the new London Regional Employment Services team will work in collaboration with the Ministry to implement the new system. The implementation period is anticipated to occur throughout 2023 with formal City of London responsibility beginning in January of 2024. Future funding impacts will be incorporated in the 2024-2027 Multi-Year Budget.

7. MPAC Reassessment (Low 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's 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.

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. Municipal Housing & Housing Stability Services (High Likelihood) – Health and Homelessness Summits – Proposed Whole of Community System Response – as detailed in the February 28th, 2023 report to the Strategic Priorities and Policy Committee, a series of three Health and Homelessness Summits were held between November 9, 2022, and January 25, 2023 aimed at creating a coordinated system response. The whole of community system response will be implemented through a co-design process with the goal to immediately implement five 24/7 hub sites and 100 units of housing with high supports this year.

What we are doing to mitigate/address the issue: Civic Administration was directed to allocate the remaining funding of approximately \$2.9 million from the London Community Recovery Network towards the implementation of the system, it being noted that Civic Administration will return to Council with a business case detailing the proposed use of funds. Civic Administration will also seek additional funding streams, realign existing approved budgets and will apply for other funding opportunities as available. Any requests for additional resources will be incorporated in future budgets and will be supported by a comprehensive business case.

Conclusion

The Property Tax, Water and Wastewater and Treatment Budgets continued 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 have been experienced. Combining the Federal and Provincial funding support with the net operational savings, the Property Tax, Water, and Wastewater and Treatment Budgets ended 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 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	0.0	0.0	0.0	0.1	0.1
Arts, Culture & Heritage Advisory & Funding	0.0	0.0	0.0	0.0	0.0
Heritage	0.0	0.0	0.0	0.1	0.1
Economic Development	0.0	0.0	0.0	0.0	0.0
Community Improvement/BIA	0.0	0.0	0.0	-0.1	-0.1
Climate Change & Environmental Stewardship	0.0	0.0	0.0	0.3	0.3
Garbage Recycling & Composting	0.0	0.0	0.0	3.8	3.8
Neighbourhood & Recreation Services	-2.2	0.0	0.0	2.2	0.0
Parks & Urban Forestry	0.0	0.0	0.0	-0.2	-0.2
Building Approvals	0.0	0.0	0.0	1.0	1.0
Planning Services	0.0	0.0	0.0	0.4	0.4
Development Services	-1.3	0.0	0.0	0.5	-0.8
Animal Services	-0.9	0.0	0.0	0.4	-0.5
By-law Enforcement	-0.3	0.0	0.0	-0.3	-0.6
Emergency Management & Security Services	0.0	-0.5	0.3	-0.2	-0.4
Fire Services	0.0	0.0	0.0	-0.8	-0.8
Municipal Housing	0.0	0.0	0.0	-0.2	-0.2
Land Ambulance	0.0	0.0	0.0	0.7	0.7
Long Term Care (Dearness)	0.0	-2.3	1.7	0.4	-0.2
Social and Community Support	0.0	-11.0	11.0	3.7	3.7
Parking	-2.5	0.0	0.0	2.2	-0.3
Roadways	0.0	-0.3	0.0	-0.6	-0.9
Rapid Transit	0.0	0.0	0.0	-0.5	-0.5
Corporate Services	0.0	-0.3	0.1	5.4	5.2
Corporate Planning & Administration	0.0	0.0	0.0	0.4	0.4
Council Services	0.0	0.0	0.0	-1.6	-1.6
Public Support Services	-2.0	0.0	0.0	1.4	-0.6
Financial Management	-0.5	0.0	0.0	4.0	3.5
Total Civic Areas	-9.6	-14.5	13.1	22.4	12.3
Surplus/Deficit					

Subject to rounding

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

Category	Lost Revenues due to COVID-19	Additional Costs due to COVID-19	COVID-19 Related Grant Funding	All Other Factors	Surplus / Deficit
Museum London	-0.1	0.0	0.1	0.0	0.0
Eldon House	0.0	0.0	0.0	0.0	0.0
London Public Library	-0.2	0.0	0.0	0.2	0.0
RBC Place London	-0.7	0.0	0.0	0.7	0.0
Tourism	0.0	-0.1	0.1	0.0	0.0
Covent Garden Market	-0.3	0.0	0.0	0.3	0.0
Conservation Authorities	0.0	0.0	0.0	0.1	0.1
London Police Services ¹	0.0	-0.1	0.0	0.1	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 ²	0.0	0.0	0.0	0.0	0.0
London Transit Commission	-9.8	0.0	4.3	6.3	0.8
Total Boards & Commissions Surplus/Deficit	-11.1	-0.3	4.4	8.0	0.9

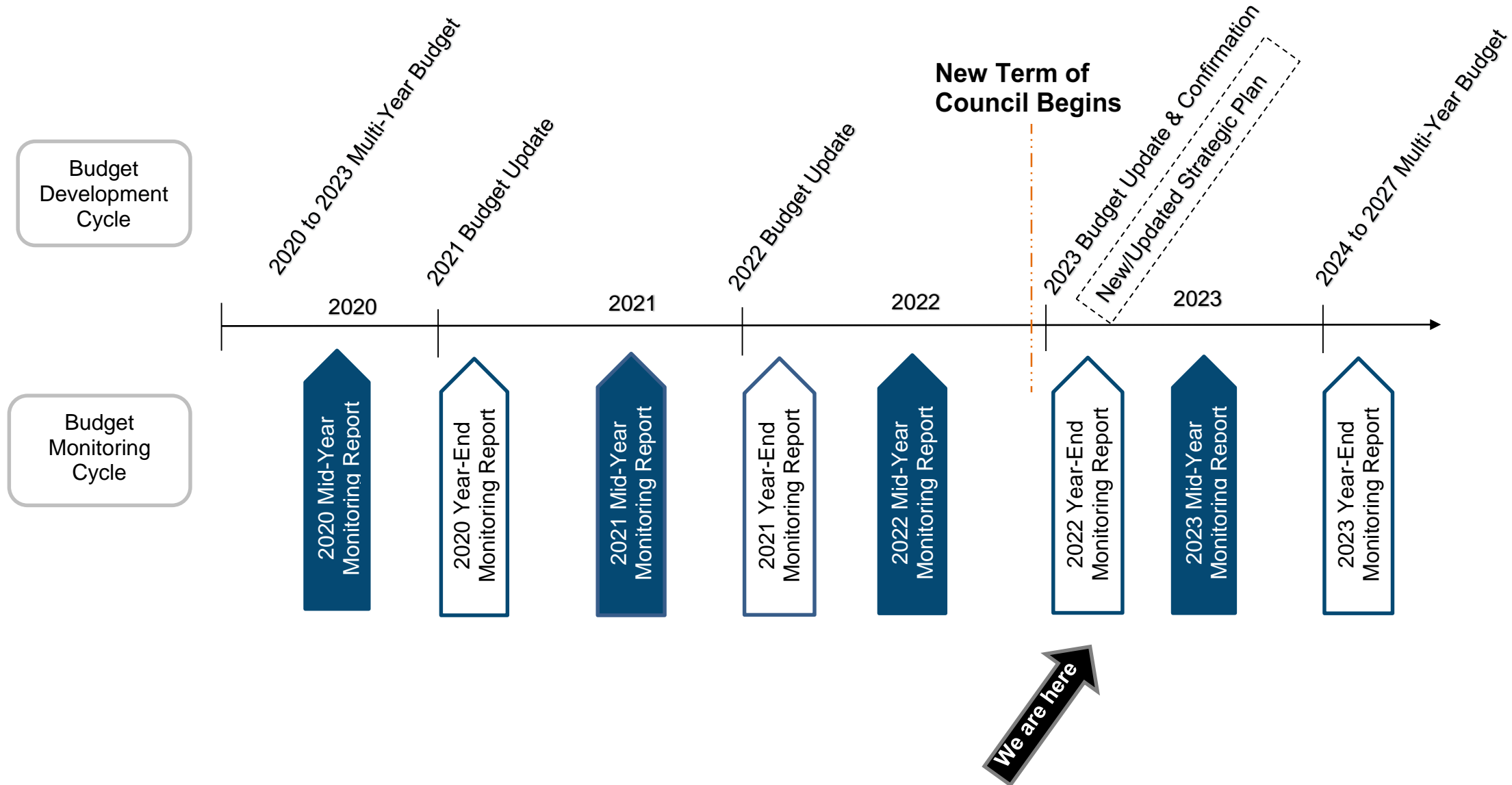
Subject to rounding

Note 1: Police balanced budget position after drawdown from the Police Unfunded Liability Reserve Fund.

Note 2: 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 Year-End Budget Monitoring Overview

2020-2022 Recap/Overview

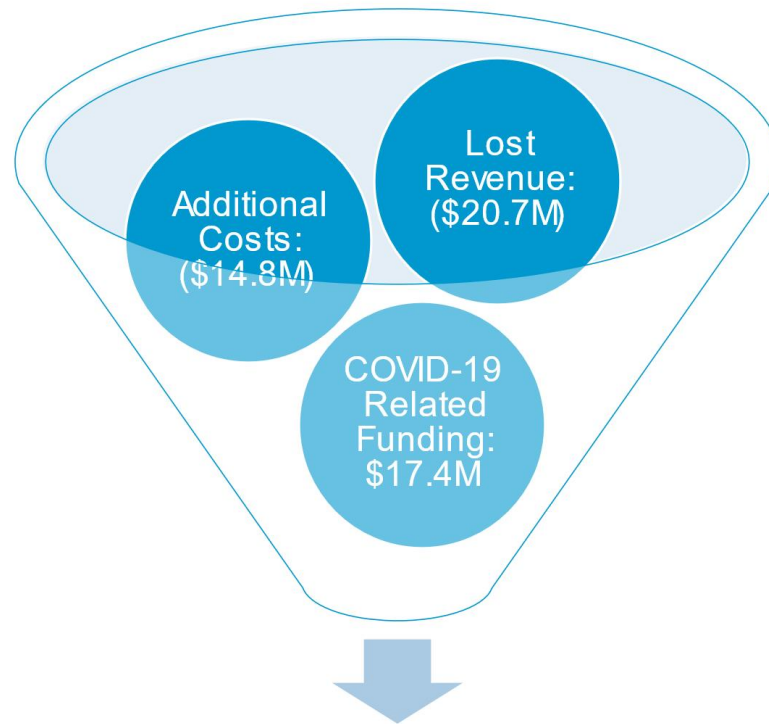
Year	Lost Revenues due to COVID-19 (A)	Additional Costs due to COVID-19 (B)	Financial Impacts due to COVID-19 (C) = (A+B)	COVID-19 Related Grant Funding (D)	All Other Factors (E)	Surplus/Deficit (F) = (C)+(D)+(E)
2020	-\$46.8	-\$22.6	-\$69.4	\$47.4	\$44.3	\$22.3
2021	-\$46.8	-\$21.9	-\$68.7	\$45.9	\$42.4	\$19.6
2022	-\$20.7	-\$14.8	-\$35.5	\$17.4	\$30.4	\$12.3

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

Summary

- The \$12.3M surplus will be allocated according to the Surplus/Deficit Policy:
 - 50% to reduce authorized debt (\$6.2M)
 - 25% to Community Investment Reserve Fund (\$3.1M)
 - 25% to Infrastructure Gap Reserve Fund (\$3.1M)
- Operating budget inflationary pressures are impacting services throughout the organization (e.g. fuel, contracted services, materials and supplies, etc.). The 2022 operating inflationary impacts were managed within existing budgets & are incorporated in the reported figures.
- Inflationary pressures are also impacting the capital budget, noting that various “tools” are available to manage these pressures in 2023 – e.g. managing project scope, project prioritization, additional reserve fund or debt financing where appropriate, etc.

2022 COVID-19 Financial Impacts Summary



2022 Net COVID-19 Impacts: (\$18.1M)

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

2022 COVID-19 Financial Impacts – Gross Impact

Lost Revenues: (\$20.7M)

Civic Service Areas: (\$9.6M)

- Parking
- Neighbourhood & Recreation Services
- POA

Boards & Commissions: (\$11.1M)

- London Transit
- RBC Place
- CGM

+

Additional Costs: (\$ 14.8M)

Civic Service Areas: (\$14.5M)

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

Boards & Commissions: (\$0.3M)

=

Total COVID-19 Impacts: (\$35.5M)

Civic Service Areas: (\$24.1M)

Boards & Commissions: (\$11.4M)



2022 COVID-19 Financial Impacts – Net Impact

Total COVID-19 Impacts: (\$35.5M)

Civic Service Areas: (\$24.1M)

Boards & Commissions: (\$11.4M)

+

COVID-19 Related Grant Funding: \$17.4M

Civic Service Areas: \$13.1M

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

Boards & Commissions: \$4.4M

- Safe Restart (Transit)

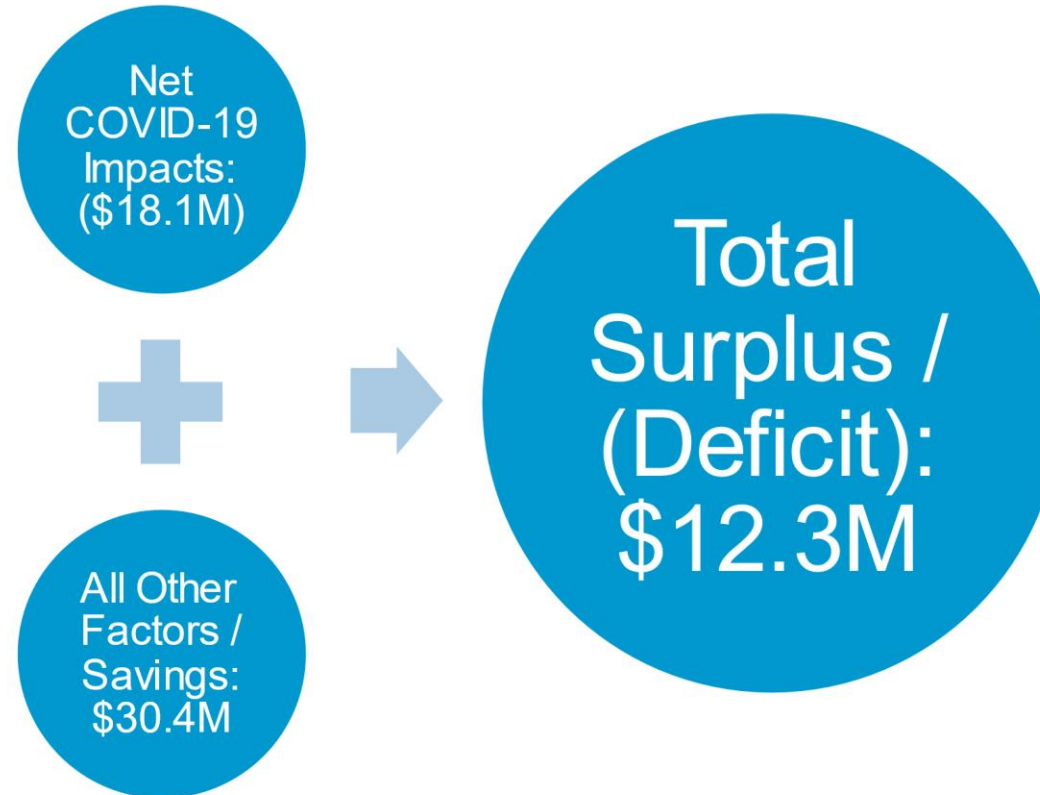
=

Net COVID-19 Impacts: (\$18.1M)

Civic Service Areas: (\$11.0M)

Boards & Commissions: (\$7.0M)

Pulling Together the 2022 Surplus/Deficit



Allocation of 2022 Surplus per Surplus/Deficit Policy

\$12.3M Surplus

50% to Reduce
Authorized but
Unissued Debt

\$6.2M

25% to the Capital
Infrastructure Gap
Reserve Fund

\$3.1M

25% to the
Community
Investment
Reserve Fund

\$3.1M



Water Budget 2022 Year-end Position & Allocation per Policy

\$6.6M Surplus

50% to Reduce
Authorized but
Unissued Debt

\$0 (no authorized debt
available to reduce)

50% to Water Works
Renewal Reserve
Fund

\$6.6M

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

\$2.0M Surplus

50% to Reduce
Authorized but
Unissued Debt

\$0.9M (balance of
authorized debt)

50% to Sewage
Works Renewal
Reserve Fund

\$1.1M