

# Municipality of Lakeshore - Report to Council

## Finance Services

## Financial Analysis



**To:** Mayor & Members of Council

**From:** Rosanna Pellerito, Corporate Leader Finance and Technology

**Date:** June 23, 2021

**Subject:** 2020 Year End Variance Reporting

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### Recommendation

Receive the report regarding the 2020 Year End Variances for the general (taxation funded), wastewater (sanitary sewer) and water funds; and

Approve the taxation supported surplus of \$1,578,084 for the year ended December 31, 2020, and

Approve a transfer of \$1,376,406 to the Working Funds Reserve, and

Approve a transfer to the Legal reserve of \$129,293 representing the 2020 surplus in the Legal expense account budget, and

Approve a transfer to the Insurance reserve of \$73,384 representing the 2020 surplus in the overall insurance claims expense account budget, and

Approve a transfer of \$283,375 to the Building Services – Operating reserve fund to transfer the 2020 Accumulated Net Surplus per the draft 2020 Building Services Statement; and

Approve a transfer of \$491,562 representing a surplus from Wastewater (sanitary sewer) operations for the year ended December 31, 2020 to the Wastewater (Sanitary Sewer) Reserve Fund; and

Approve a transfer of \$189,600 representing a surplus from Water operations for the year ended December 31, 2020 be transferred to the Water Reserve Fund.

### Background

Annual operating budgets for all budget centers are set at the beginning of the calendar year based on Council direction and strategic priorities. Professional estimates, current trends, legislative environment, and other local information available at the time are significant inputs to the operating budgets recommended to Council. Revenues and expenditures are monitored on an ongoing basis and projected through to the end of the

year to ensure they remain at or as close to their approved budget as possible and that all material variances are mitigated as effectively as possible.

Financial results as at December 31, 2020 (4<sup>th</sup> quarter) have been reviewed and the resulting cumulative surplus/(deficits) have been determined accordingly. This report provides variances from the approved budgets for taxation, water and wastewater rate funded budget centers for the 2020 fiscal year.

## Comments

In 2020 the quarterly projections proved to be a bit more challenging with the onset of the COVID-19 pandemic. The extent of the pandemic on levels of service, on revenues and on expenditures required to address COVID process, were estimated at best efforts given all the uncertainty that evolved throughout the year.

## Taxation Supported Results

The main elements comprising the net surplus are outlined in the table below. The majority of the surplus is being driven by wages surpluses that resulted from the delay in recruiting positions in 2020 as a result of the pandemic.

Account Description	Surplus (Deficit)
Overall Wages Savings including Provisional Budget	1,763,803
Overall Savings in R&M and Fuel costs	202,151
Overall Savings in Training and Travel	214,613
Savings in Legal Fees	129,294
Savings in Recreation Program Supplies and Transaction Fees	119,361
Savings in Utilities cost	110,874
Savings in Locates Services	102,757
Savings in Insurance Claims	73,384
Savings in Consulting costs for Planning	49,590
Revenue Shortfall	(738,798)
Building Reserve Transfer Deficit	(523,375)
Net Penalty and Interest	(218,637)
COVID Expenses	(138,836)
POA Revenue Shortfall	(129,972)
Shortfall in Waste Collection	(80,507)
Shortfall in Police Grants	(79,368)
Other Miscellaneous	(13,832)
<b>Total Surplus prior to the COVID grant</b>	<b>842,499</b>
COVID Safe Restart Received in 2021	1,411,300
COVID Safe Restart Transferred to 2022	(675,715)
<b>Total Surplus including the COVID grant</b>	<b>1,578,084</b>

The 2020 fiscal year ended with cumulative municipal surplus of \$1,578,084 for taxation supported budget centers. The departmental that resulted in the net surplus are outlined in **Appendix A** attached.

Of the total wage savings of \$1,763,803 in 2020, \$935,543 was from savings in the recreation department due to the closure of the ATRC and other recreation facilities from the COVID pandemic. The balance of \$830,480 is a result of the pause in hiring various vacant positions throughout the organization while the Organizational Review was undertaken. Included in the \$830,480 is the \$200,000 wage provision that was budgeted in 2020 to offset any unfavorable variances resulting from the settlement of outstanding collective agreements and pay equity issues. The Municipality was also successful in receiving wage subsidies for seasonal staff in the amount of \$59,234.

Due to the pandemic and the closure of facilities, savings were incurred in repairs and maintenance costs of \$202,151 and utility costs of \$110,874.

As staff were not able to attend annual conferences and training courses, an overall savings of \$214,613 was realized in overall training and travel budgets across the corporation.

Other savings realized through the year were savings in legal fees of \$129,294, savings in program related costs for recreation programs \$119,361, savings in locate costs of \$102,757 otherwise paid to the Water department (although this translates into a lost revenue in the Water dept.), savings in legal fees related to claims of \$73,384 and savings in planning consulting costs of \$49,590. Administration is recommending that savings in legal fees and savings in insurance claim costs be transferred to their respective reserves in accordance with the reserve fund policy.

Offsetting these savings is a loss in revenue of (\$738,798) from recreation programming and facility rentals, a deficit resulting from a net transfer to the building reserve of (\$523,375), loss in revenue from the deferral of penalty and interest on tax and water bills (\$218,637) as a relief measure implemented to assist with COVID relief to rate payers, COVID related costs of (\$138,836) to implement COVID safety measures, a shortfall in revenue from POA fine of (\$129,972).

Waste collection costs exceeded budget by (\$80,507) in 2020 primarily due to the increased tipping fees that are not recoverable as well as additional garbage pickup performed due to flooding in certain areas of the municipality. With the change in the structure of grants made available for policing, the Municipality did not receive the annual 1000 officer grant as budgeted. There was a budget shortfall of (\$79,368) in this line item. Other miscellaneous shortfalls amounted to (\$12,832).

In 2020 the Municipality received COVID relief funding as part of the provincial safe restart program. Allocations have been made for 2021 as well. In total, the Municipality has been allocated a total of \$2,508,427. Below is a summary of the funding allocated to Lakeshore.

<b>Summary of COVID Funding</b>	
2020 Phase 1 Safe Restart Allocation Funding	\$ 888,300
2020 Phase 2 Safe Restart Application Funding	523,000
<b>Total COVID Funding received in 2020</b>	<b>1,411,300</b>
2021 Phase 2 Safe Restart Allocation Funding	376,000
2021 COVID Recovery Allocation Funding	721,127
<b>Total COVID Funding received in 2021</b>	<b>1,097,127</b>
<b>Total Overall COVID Relief Funding Received</b>	<b>2,508,427</b>
Funding used in 2020	(735,545)
<b>Total COVID Funding available for 2021</b>	<b>1,772,882</b>

Given the uncertainty of the total impacts of the pandemic on the 2021 budget, projections for 2021 will be reported in subsequent variance reports.

### **Building Operations**

Annual building permit collections amounted to \$1,225,857 representing \$450,857 more than budgeted. This was primarily due to increased building activity in 2020 as reported in the Quarterly Building Activity report to Council.

Due to the cyclical nature of development, the Building Code Act mandates municipalities to transfer annual Building related surpluses to reserves so that in underperforming years, that reserve may be drawn upon to cover deficits. With the unanticipated increase in revenue, it is recommended that a transfer of \$283,375 be made to the Building Operating Reserve Fund. The projected balance in the building reserve fund following this transfer will be approximately \$1,519,480.

### **User Rate Supported Results**

#### **Wastewater (Sanitary Sewage)**

The wastewater budget center ended the 2022 year with a net surplus of \$491,562. This is primary due to higher than budgeted revenue. In 2020 the Municipality realized a total surplus of \$430,763 in wastewater consumption. This is largely linked to the pandemic with more people staying home and working from home due to the stay at home orders. Offsetting this surplus are marginal cost deficits in utility accounts, maintenance costs paid to OCWA and insurance costs. The Municipality received an additional \$57,701 in Clean Water Wastewater funding that was subsequently transferred to the reserve to fund dedicated capital projects.

Revenue, expenditure and reserve transfer variances that resulted in the net surplus are outlined in **Appendix B** as attached.

## **Water**

The 2020 fiscal year for the water rate supported budget center ended with a net surplus of approximately \$189,600. Similar to what the Municipality experienced with wastewater consumption, water consumption was also higher than budgeted in 2020. This too is directly related to the impacts of the COVID pandemic. The overall surplus for water consumption realized in 2020 was \$441,765. This is partially offset by a deficit in revenue from a reduction in requests for locate services. Also offsetting the revenue surplus is increased costs for water purchased from Union Water and Tecumseh due to increased consumption, as well as system maintenance costs related to higher than planned water main repairs and leaks. These expenditures are difficult to predict. In 2020 Lakeshore experiences in excess of 37 leaks that required repair.

Revenue, expenditure and reserve transfer variances that result in a net surplus are outlined in **Appendix C** as attached.

## **Financial Impacts**

### **Taxation Supported Results**

In accordance with the current Reserve and Reserve Fund Policy FN-389, the working funds reserve fund has been underfunded for several years. The intent of this reserve is to fund day to day operations, maintain general cash flow and ensure business continuity during unforeseen events that may strain financial resources. The recommended target for this reserve is 2 months of operating costs or approximately \$7.8M for 2020.

As evident with the unanticipated financial constraints the Town has and continues to experience from the effects of the COVID-19 pandemic, the value of adequately funding the Working Fund Reserves has never been more apparent. In alignment with Council's strategic priority of financial sustainability, it is recommended the 2020 net surplus of \$1,376,406 be transferred to the Working Funds Reserve. This would increase the current uncommitted balance in the Working Fund Reserve to \$4,243,015.

In addition, in accordance with the reserve fund policy and the requirements of the building code act, a transfer of \$283,375 will be made to the Building Operating reserve fund based on the 2020 Accumulated Net Surplus for Building.

Administration is also recommending a transfer of \$129,293 to the Legal Services reserve to fund unanticipated future legal costs as well as \$73,384 to the insurance reserve to fund unanticipated future claim costs. This in accordance with the Municipalities Reserve and Reserve Fund Policy

## User Rate Supported Results

User rate supported surpluses are recommended to be transferred both to the Water Reserve Fund and Wastewater Reserve Fund respectively. Through the five year review of user rates for water and wastewater, Administration will continue to develop the Municipality's financing strategy to best mitigate the impact on rate payers.

**Attachments**    Appendix A - Taxation Funded Variance Summary  
                         Appendix B - 2020 Wastewater Rate Funded Variance  
                         Appendix C - 2020 Water Rate Funded Variance

## Report Approval Details

Document Title:	2020 Year End Results - 4th Quarter Variance.docx
Attachments:	- Appendix A - Taxation Funded Variance Summary.pdf - Appendix B - 2020 Wastewater Rate Funded Variance.pdf - Appendix C - 2020 Water Rate Funded Variance.pdf
Final Approval Date:	Aug 5, 2021

This report and all of its attachments were approved and signed as outlined below:

Kristen Newman

Truper McBride