

DATE: May 3, 2013

REPORT TITLE: **2012 TRIANNUAL FINANCIAL PERFORMANCE REPORT - YEAR END (UNAUDITED)**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That staff be authorized to fund up to \$1.2 million to the Credit Valley Conservation Authorities for rain gauges as directed by Council during the 2013 Budget deliberations;

And further, that the amount be financed from the General Government Reserve – CFSR R0230;

And further, that staff be authorized to implement the 2012 surplus management actions and administrative adjustments as outlined in the report of the Chief Financial Officer and Commissioner of Corporate Services, dated March 28, 2013, titled “2012 Triannual Financial Performance Report – Year End (Unaudited)”.

REPORT HIGHLIGHTS

- Regional Council approved the 2012 Operating and Capital Budget of \$2.6 billion to provide the funding for the Region to continue to deliver quality services and ensure the service needs of the residents and the service demands of a growing community
- The Region’s Tax Supported Programs generated a surplus of \$8.7 million, a total variance of one per cent relative to the Tax Supported net levy of \$854.7 million:
 - \$5.0 million surplus for Region Controlled Tax Supported Programs
 - \$3.7 million surplus for Region Financed External Organizations
- The Region’s Utility Rate Supported Programs generated a surplus of \$9.2 million, a variance of 3.7 per cent relative to the total Utility Rate direct billings of \$248.5 million
- Utility Rate surplus driven by increased revenue from unusually dry summer in 2012
- The recommended surplus allocations are included in this report which includes \$1.2 million to Credit Valley Conservation (CVC) Authority to support rain gauge needs as directed by Council during the 2013 Budget deliberations
- Surplus management recommendations are in line with Peel’s Long Term Financial Planning Strategy as they support both Financial Flexibility and Financial Sustainability
- A separate Capital Performance report for 2012 will be provided to Council in a companion report to provide Council with more analytics on the capital program

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2012 TRIANNUAL FINANCIAL PERFORMANCE REPORT - YEAR END (UNAUDITED)**DISCUSSION****1. Background**

In December 2011, Regional Council approved a \$2.6 billion 2012 Budget. The 2012 Budget provided \$1.7 billion in operating funding for Regional services, including \$0.4 billion to Peel's externally financed agencies such as Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities. The Capital Budget invested a further \$900 million in Peel's infrastructure.

The 2012 Budget provided resources to support community needs:

- Support 15,800 social assistance clients monthly
- 45 ambulances on the road at peak times to respond to 86,520 "911" calls
- 463,000 accessible transportation trips
- 16,031 social housing units, 533 beds in shelters, and 263 assisted home ownerships
- 4,000 subsidized child care spaces with 800 spaces for children with special needs
- 257,298 resident days of care in five long term care homes
- Dental screening to 50,000 children
- 238,580 immunization records managed
- 9,190 inspections at 5,408 food premises
- 1,578 lane kilometres of roads, 149 structures and 423 signalized intersections
- Over 500,000 tonnes of waste managed
- Wastewater treated for 290,000 customers – over 600 million litres per day
- Municipal water treated, transmitted to over 296,000 customers – over 607 million litres per day
- Visible policing services responding to over 230,000 calls in Brampton and Mississauga by Peel Regional Police and 20,000 calls by Ontario Provincial Police in Caledon
- Through the Conservation Authorities responsible management of Peel's water, land and natural habitats over 1,254 square kilometres

Peel's budgets are developed based on the best information available at the time. Assumptions are modeled and projected e.g. social assistance caseload, "911" call volumes, weather, etc. Risks are identified and mitigated where reasonable, for example utilization of working funds to address volatility in weather conditions, economic cycles and one time initiatives or pilots, to minimize the impact on the tax payer.

Actual service level in 2012 varied based on changes in demand. Some of the key service level variances experienced in 2012 included: social assistance caseload averaged 16,530 clients per month as compared to the budget estimate of 15,800; consumption of water increased over and above the budget estimates due to a very dry summer, and winter maintenance of roads was lower than budgeted due to fewer winter events. These types of variances are normal in any business and beyond the control of the Region. Peel's approach to budget risk management provides flexibility and mitigates the tax rate impact to address the typical variability experienced in most years.

The Financial Control By-law requires that staff report the financial status of the organization at a minimum of twice yearly. This report summarizes the unaudited financial results of Regional programs for the 12 months ending December 31, 2012 for Current and Capital operations, the proposed Surplus Management allocations and the status of Reserves and Reserve Funds.

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2. Operating Results

Appendix I (as attached) summarizes the Region's net expenditure position for the 12 months ending December 31, 2012 for Current operations. The Region's Current operations include both Tax Supported Programs and Utility Rate Supported Programs.

a) Tax Supported Programs

The Tax Supported Programs generated a surplus of \$8.7 million, representing a variance of 1 per cent on a tax supported net levy budget of \$854.7 million as outlined in Table 1 below, well within Peel's budget accuracy target of plus or minus 3 per cent.

Table 1

\$ Millions	Total Expenditure Budget	Net Expenditure Budget	Surplus/(Deficit)	Variance to Net Budget %
Regional Programs	1,012	487	5.0	1.0
External Agencies	406	369	3.7	1.0
Total	1,418	856	8.7	1.0

As mentioned above the 2012 \$1.4 billion Tax Supported Operating Budget provided a wide array of services to residents and businesses in Peel. The 2012 results demonstrate effective management of Peel's operations by senior management to carry out Council's objectives. Details on the year end financial results are contained in Appendix I.

b) Utility Rate Supported Programs

Utility Rate Supported Programs ended the year with a surplus of \$9.2 million on a total Utility Rate direct billings budget of \$248.5 million as outlined in Table 2 below:

Table 2

\$ Millions	Budget	Total Actuals	Surplus/(Deficit)	Variance to Net Budget %
Water/Wastewater Net Expenditures	274.6	268.4	6.2	2.3
* Billings/Revenues	274.6	277.6	3.0	1.1
Net	0	9.2	9.2	3.7**

* Includes Peel's Direct Billings & revenue from York, Toronto, and Sewer Surcharge

** Based on Peel's Direct Billings of \$248.5 million

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Water consumption is highly variable in the summer months due to weather conditions. Despite a very dry summer Peel was able to meet peak demand for water supply to over 296,000 customers in 2012. Details on the year end financial results are contained in Appendix I.

c) Surplus Management Allocations

In accordance with the Financial Control By-law, the Chief Administrative Officer and the Chief Financial Officer and Commissioner of Corporate Services are authorized to carry out the necessary surplus management actions in order to stabilize the year-end fiscal position and future tax and utility rates. In accordance with the By-law, a summary of the proposed surplus management actions are presented in Appendix II of the subject report.

i) Tax Supported Programs

Tax Supported Programs generated a total surplus of \$8.7 million. \$5.0 million was generated by Region Controlled tax programs.

In accordance with Council direction during the 2013 Budget discussions, \$1.2 million of the year end surplus was allocated to support Credit Valley Conservation Authorities acquisition of rain gauges.

As outlined in the report of the Chief Financial Officer and Commissioner of Corporate Services, dated October 17, 2012, titled "Overview and Update on Status of Reserves", staff reported a tax supported capital financing shortfall of \$213 million. Therefore, the remaining \$3.9 million was allocated to Peel's Capital Reserves to support the sustainability of the capital program.

The total Police surplus of \$3.6 million was returned to working fund reserves supporting the respective Police Services.

ii) Utility Rate Supported Programs

Utility Rate Supported Programs generated a surplus of \$9.2 million. As the Utility Rate Stabilization Reserves were depleted during the period of 2002-2010 when the programs experienced deficits largely due to declining water consumption, the surplus of \$9.2 million was allocated to the Utility Rate Stabilization Reserves.

In support of Peel's overall long term financial objective to ensure financial sustainability of regional assets and services, the recommended surplus actions allocate these funds to the working fund reserves to stabilize future tax and utility rates.

d) Write-offs

Accounts Receivable Policy F40-03 gives the Chief Financial Officer the authority to approve the write-off of Water and Wastewater billings and General Receivable billings deemed uncollectable and requires staff disclose through the tri-annual reporting process.

The 2012 budget made provision for anticipated write-offs. Write-offs at the end of 2012 are well within budgeted estimates. Appendix III (as attached) provides a summary of the write-off transactions for the 12-month period ending December 31, 2012.

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As noted earlier in this report the annual budget is developed by reviewing trend analysis, modeling risks etc. based on the best available information at the time. The updated analysis informs the next planning cycle.

Examples of how changing assumptions and trends informed the 2013 Budget include:

- **Roads Winter Maintenance** – adjusted the number of winter events to reflect the rolling 5 year trend
- **Recyclable Revenue** – adjusted the revenue budget to reflect the changing market place for recycled materials
- **Energy Costs** – reviewed and updated based on trends, experience and external advice on market conditions
- **Ontario Works Caseload** – modeling of projected average client monthly caseload is reviewed annually based on economic factors
- **Provincial Funding** – adjust program funding based on latest information available
- **Utility Rate Revenue** – adjusted consumption model based on 5 year trend analysis and strategic outcome to reduce per capita consumption

Staff will continue to review and assess the impact of 2012 service demand and financial performance results to inform the 2014 Budget planning cycle. Where appropriate budget assumptions will be updated and Council will be informed through the next budget.

3. Impact on Working Fund Reserves

The 2012 Budget provided \$9.8 million in total contingent Working Fund Reserve draws (including Police Services) to support the 2012 Tax Supported Operating budget for non-recurring items such as the contingent working funding draw of \$1.8 million for the temporary increase in Ontario Works caseload. There were no Stabilization Reserve draws budgeted for the Utility Rate supported programs.

In 2012, none of the budgeted contingent working fund draws was utilized as Regionally controlled programs and Police Services completed the year in surplus positions. Therefore, Council's decision to utilize working fund draws to address temporary pressures was prudent.

Without the budgeted contingent Working Fund Reserve draws, the balance of the Tax Supported working fund reserves as at December 31, 2012 is estimated at \$96.1 million, net of the GO Transit liability of \$88.7 million. The GO liability represents an unfinanced liability due to Peel Regional Council's decision to limit funding for GO Transit to the growth capital plan funded through development charges which was \$3.75 million in 2012.

4. 2012 Capital Performance

A separate report titled, "2012 Capital Performance and Impact on Reserves and Reserve Funds" will be provided to Council on May 23, 2013. This report is being presented in order to provide Council with more detail and analysis of Peel's capital program. This is the first stand-alone capital report staff have provided to Council and the goal is to improve the quality of information to enable Council to make better informed decisions on the capital program.

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CONCLUSION

In summary, in 2012, although confronted with changes in economy, commodity market and weather, the Region continued to deliver quality services and ensured the service needs of the residents and the service demands of a growing community were met within the approved budget and with a small surplus. The surplus management actions support the organization's overall long term and financial sustainability objectives.



Norma Trim
Chief Financial Officer
and Commissioner of Corporate Services

Approved for Submission:



D. Swarc, Chief Administrative Officer

For further information regarding this report, please contact Stephen VanOfwegen at extension 4759 or via email at stephen.vanofwegen@peelregion.ca

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c. Legislative Services

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2012 Triannual Financial Performance Report – Year End (Unaudited)

APPENDIX I

The following provides high level summary on the year-end results of Current Operations.

a) Tax Supported Programs - \$8.7 million or a budget variance of 1.0 per cent relative to the Tax Supported net levy of \$854.7 million

CURRENT OPERATIONS – TAX SUPPORTED PROGRAMS	
Region Controlled Programs – \$5.0 Million Surplus	
Drivers of Surplus/(Deficit)	Surplus/ (Deficit) In Millions (\$)
Revenue	
• Additional External Funding - (Waste Diversion Ontario (WDO), Hostel per diem, Paramedic Services – ministry funding)	5.6
• Lower revenue for recyclables	(4.2)
• Higher supplementary tax write-offs	(5.8)
Expense	
• Net financial impact of labour disruption	4.7
• Lower winter maintenance costs due to fewer winter events, lower waste tonnage, fewer Rent-Geared-to-Income (RGI) housing units	7.6
• Learn Play Care (LPC) Centres directly operated closure liability	(6.4)
• Non-Program self insured benefits	3.5
TOTAL – Region Controlled Tax Supported Programs	5.0
Region Financed External Programs - \$3.7 Million Surplus	
• Peel Regional Police – operational efficiencies	3.4
• Ontario Provincial Police (OPP)	0.1
• Toronto Tax	0.1
TOTAL – Region Financed External Organizations	3.7
Total Tax Supported (Region Controlled & External Programs)	8.7

b) Utility Rate Supported Programs - \$9.2 million or a budget variance of 3.7 per cent relative to the Utility Rate direct billings of \$248.5 million

CURRENT OPERATIONS – UTILITY RATE SUPPORTED PROGRAMS				
Water / Wastewater				
In Millions (\$)	Total Budget	Total Actuals	Surplus/ (Deficit)	Drivers of Surplus/(Deficit)
Gross Expenditure	344.9	330.7	14.2	<ul style="list-style-type: none"> Operational efficiencies: \$2.4 million - lower electricity costs \$3.8 million - process improvements
Total Expenditure	316.9	305.7	11.2	
Total Revenue	42.3	37.4	4.9	
Net Expenditure Before Billings	274.6	268.3	6.3	
Direct Billings	248.5	252.4	3.9	<ul style="list-style-type: none"> Additional Revenue of \$3.0 due to higher water consumption – dry summer
Other *	26.1	25.2	(0.9)	
Total Billings	274.6	277.6	3.0	
Net Expenditure	0	9.2	9.2	

Note * - Includes revenue from York, Toronto and Sewer Surcharge

* Numbers may not add due to rounding*

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APPENDIX I

**Region of Peel
Statement of Net Expenditure (\$'000)
Year Ended Decemeber 31, 2012**

	2012 Revised Budget A	2012 Actuals prior to Surplus Mgmt B	Variance before Surplus Mgmt Entry (Over) Under C=A-B	2012 Proposed Surplus Mgmt Entry D	Variance after Surplus Mgmt Entry (Over) Under E=C-D
<u>TAX SUPPORTED PROGRAMS</u>					
Region Controlled Programs					
<i>Public Works</i>					
Development Services	932	338	594		594
Transportation	71,567	69,891	1,677		1,677
Waste Management	93,882	91,307	2,575		2,575
Operation Support Services (Including Rev Mgmt)	1,208	1,208			
Subtotal Public Works	167,589	162,744	4,846	-	4,846
<i>Human Services</i>					
Housing	110,271	105,458	4,813		4,813
Early Learning and Child Care	23,848	27,201	(3,353)		(3,353)
Social Assistance and Employment	55,406	49,749	5,657		5,657
Community Investment	4,953	5,598	(646)		(646)
Subtotal Human Services	194,477	188,006	6,471	-	6,471
<i>Health Services</i>					
Long Term Care	29,045	30,206	(1,161)		(1,161)
Paramedic and Emergency Programs	38,664	38,925	(261)		(261)
Public Health	24,725	23,091	1,634		1,634
Health Admin Services	690	627	63		63
Subtotal Health Services	93,124	92,849	274	-	274
Corporate Services	16,457	16,683	(227)		(227)
Employee & Business Services	23,427	27,788	(4,360)		(4,360)
Executive Office, CIO, SIP, Council	4,356	4,210	146		146
Non-Program	(848,080)	(845,962)	(2,119)	3,901	(6,020)
General Corporate	(30,865)	(30,865)			
Internal Support/Non-Program	(834,706)	(828,146)	(6,560)	3,901	(10,461)
Total Region Controlled Programs	(379,515)	(384,547)	5,031	3,901	1,130
Region Financed External Organizations					
<i>Police Services</i>					
Peel Regional Police	325,654	322,212	3,441	3,441	
Ontario Provincial Police	11,000	10,869	131	131	-
Subtotal Police Services	336,654	333,082	3,572	3,572	
Conservation Authorities	15,602	15,601	1	1,200	(1,199)
Assessment Services	17,060	17,068	(7)		(7)
Toronto Tax	10,200	10,123	77		77
Total Region Finance External Organizations	379,515	375,874	3,642	4,772	(1,130)
Total Tax Supported Programs	-	(8,673)	8,673	8,673	
<u>UTILITY RATE SUPPORTED PROGRAMS</u>					
Water	-	(3,617)	3,617	3,617	
Wastewater	-	(5,624)	5,624	5,624	
Total Utility Rate Supported Programs	-	(9,241)	9,241	9,241	
Total Region	-	(17,914)	17,914	17,914	

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APPENDIX II

2012 Proposed Surplus Management Entries

	2012
<u>PROPERTY TAX SUPPORTED PROGRAMS</u>	
Surplus/ (Deficit)	
Surplus / (Deficit) - Region Controlled Tax Supported Programs	5,101,091
Surplus / (Deficit) - Peel Police	3,441,376
Surplus / (Deficit) - OPP	130,628
	<u>8,673,095</u>

Proposed Allocations

Program	Reserve #	Reserve Description	\$'s	Total
OPP	R0001	Caledon Policing Cost Stabilization	130,628	
Police	R1231	PRP - General	3,441,376	
CVC	R1250	General Government Working Fund	1,200,000	
Non-Program	R0230	Cap Fin Stab -Gen Govt	3,901,091	
Total Proposed Tax Supported Allocations				<u>8,673,095</u>

UTILITY RATE SUPPORTED PROGRAMS

Surplus/ (Deficit)	
Surplus / (Deficit) - Water Program	3,617,425
Surplus / (Deficit) - Wastewater Program	5,623,756
	<u>9,241,181</u>

Proposed Allocations

Program	Reserve #	Reserve Description	\$'s	Total
Water	R0010	Water Rate Stabilization	3,617,425	
Wastewater	R0012	Wastewater Rate Stabilization	5,623,756	
				<u>9,241,181</u>

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APPENDIX III

Summary of 2012 Write-offs

Write-offs for Period Ending December 31, 2012				
Category	Total Billings	Write-Off Total	% Write-off to Billings	Balance Remaining in Allowance Accounts
General Receivables	\$ 246,727,061	\$ 25,897	0.01%	\$ 225,496
Water/Wastewater	\$ 271,864,971	\$ 70,463	0.02%	\$ 79,204