

OPERATING FINANCIAL UPDATE - SEPTEMBER 30, 2021

RECOMMENDATION

That the November 22, 2021, Financial and Corporate Services report FCS00830, be received for information.

Report Purpose

Information only

Year-to-date operating results and projected year-end results compared to the approved budget are provided in this report for Council's information.

Executive Summary

- Administration provides Operating Financial Updates three times a year. Consistent, transparent and timely financial reporting to Council is part of managing the corporation for the community.
- This report provides the September 30, 2021, Operating Financial Update. The report includes year-to-date operating results and projected year-end results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs. An update is also provided on certain reserves.
- September 30, 2021, results for tax-supported operations reflect a net favourable year-end variance of \$60.6 million and a projected net favourable year-end variance of \$28.9 million.
- The projections are based on the year-to-date results and other available information. There continues to be uncertainty related to the impacts of the COVID-19 pandemic and actual results may vary from these projections.

REPORT

Attachment 1 provides the September 30, 2021, year to date and projected year-end operating financial results compared to the approved budget for tax-supported, enterprise/utility and Community Revitalization Levy (CRL) programs.

Continued Financial Uncertainty Due to COVID-19

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On December 7, 2020, City Council approved one-time adjustments to its 2021 operating budget for the impacts of the COVID-19 pandemic through Financial and Corporate Services report FCS00181, COVID-19 2021 Financial Impacts and Funding Strategy. The total unfavourable budget impact for the corporation due to the pandemic was estimated at \$152.0 million. The portion attributable to tax-supported operations was \$143.7 million. The impact was offset by various funding strategies, including use of COVID-19 funds within the appropriated Financial Stabilization Reserve (FSR), expense management strategies, and additional revenue strategies. At the time the adjustments were established, although Alberta was in the second wave of the pandemic, vaccines were on the horizon and the initial assumptions for the 2021 adjustments accounted for lower revenues but assumed most facilities would be operating. Alberta experienced a third wave and the significant increase in cases again resulted in modified health guidance being issued. One-time funding was allocated specifically to address the effects of the pandemic and unused funding was intended to be returned to the appropriated FSR. Administration reviewed its COVID-19 2021 estimates in summer 2021 and released \$17.3 million in COVID-19 funds no longer required back to the appropriated FSR. The year-end budgets reflected in this report reflect the COVID-19 budget adjustments including the return of this funding to the appropriated FSR. Details are available in the supplementary COVID-19 budget adjustment information in Attachment 1. Administration continues to examine currently committed 2021 COVID-19 funding to assess whether the funding is still required in 2021 or if a portion of this funding can be redirected to address the anticipated 2022 COVID-19 funding shortfall.

Financial Results

When compared to the COVID-19 adjusted budgets, year-to-date results for tax-supported operations show a surplus of approximately \$60.6 million as at September 30, 2021. The year-end projected results estimate a surplus of \$28.9 million with continued uncertainty remaining in the fourth quarter. Though the 2021 budget was adjusted for estimated COVID-19 impacts, the pandemic continues to affect year-to-date results and year-end projected results, with some of the additional impact due to the fourth wave. The projected surplus reflects the combined results across tax-supported operations with favourable variances in some areas being offset by unfavourable variances in others. Administration monitors variances against the budget and the results inform budget adjustments where required. Much of the year-end projected surplus can be attributed to lower than expected personnel costs resulting from vacancy management and recreation facility closures and less snow and ice control program costs due to weather. These favourable variances are partially offset by less than budgeted transit and recreation centre revenues as a result of the pandemic.

The projected favourable variance represents approximately 1 per cent of the City's \$3.0 billion budget. While Administration never intends to run a deficit or generate a surplus, there is still considerable financial risk for the City's pandemic recovery. Without committed funding from other orders of government, it is important that the City maintains its surplus to have financial flexibility for the ongoing impacts of the pandemic through 2022. The COVID-19 2022 funding strategy (FCS00828 - COVID-19 2022 Financial Impacts and Funding Strategy), recommends offsetting a portion of the 2022 budget impacts with the assumed surplus.

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The pandemic's long-term financial effects are still uncertain. Administration continues to assess the legacy impacts of the pandemic and will consider more permanent adjustments to the operating budget in the proposed 2023-2026 budget being presented to City Council in the fall of 2022. Administration continues to advocate for funding from other orders of government, particularly for transit, as there is uncertainty of additional funding within 2021 and 2022.

Economic Update

An Economic Update is included as Attachment 2. It highlights indicators relevant to Edmonton's economic recovery, including employment growth and quarterly housing starts. Even though there is projected growth, uncertainty about the course of the pandemic, and continued progress towards broad immunization are factors likely to affect Edmonton's economic performance. Economic uncertainty underscores the need to secure surplus funds for the City's pandemic response.

COMMUNITY INSIGHT

As the financial updates provide the quantitative results of budget items that undertake their own efforts to gain insight from Edmontonians, additional community insight is not sought for these reports.

GBA+

As the financial updates reflect the reporting of actual results that provide the quantitative progress of programs and services that each have individual implications for GBA+, additional GBA+ analysis is not completed for these reports.

ATTACHMENTS

1. Operating Financial Update - September 30, 2021
2. Q3 2021 Economic Update