

**Municipality of Chatham-Kent**  
**Finance, Budget, Information Technology & Transformation**  
**Budget & Performance Services**

**To:** Mayor and Members of Council  
**From:** Steven Brown, CPA, CMA  
Director Budget and Performance Services  
**Date:** August 23, 2022  
**Subject:** 2021 Final Operations Variance

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**Recommendation**

It is recommended that:

1. The final 2021 operating deficit of \$160,079 be funded by the Winter Control Reserve.

**Background**

The final variance report is normally completed along with the audited financial statements. The audited financial statements will be presented to Council in a separate report.

The overall management of the 2021 budget has resulted in a favourable one-time operating surplus of \$290,000 or 0.08% of the gross budget. However, due to past practice of transferring 50% of the Police Services surplus to a Police Service reserve, and continuing this practice in 2021, the municipality finished 2021 with a deficit of \$160,079.

This report reflects the Council approved Surplus/Deficit policy to transfer to reserves the operating surpluses/(deficits) in the Community Human Services, Ambulance, Insurance, Energy, Waste Diversion, Building Services Bill 124 areas, and other miscellaneous items.

**Comments**

The final 2021 Financial Statements include \$2.8M in Safe Restart Funding and \$1.5M in Provincial Recovery Funding. This funding was provided to municipalities to assist with increased costs and lost revenues. Chatham-Kent used this funding to offset lost casino and recreational revenues, along with increased operating costs associated with the Municipality's responses to the COVID-19 pandemic.

The final 2021 Financial Statements also included \$2M in funding from the Province to partially offset increased expenses related to the Wheatley emergency. Similar to the

Safe Restart and Provincial Recovery Funding, the Wheatley funds have been included in the Non Departmental area and not allocated out to each division, to better reflect the increased costs related to both COVID-19 and the Wheatley emergency within business units.

Once the Police Service surplus is allocated to the reserve for Police Service issues, based on past practice, as highlighted below, Chatham-Kent has a deficit of \$160,079. The deficit has been driven by ongoing COVID-19 impacts, along with the Wheatley emergency, which has greatly increased expenses within various departments.

While winter control had a surplus of \$348,000 in 2021, it is recommended that the \$160,079 deficit be funded from the Winter Control Reserve, as Public Works had a \$4M deficit as a result of several uncontrollable factors, such as the Wheatley Explosion, COVID-19 expenses and a deficit in the Public Utilities Commission/Public Works Service Level Agreement which has been addressed for the 2022 budget year.

Reserve for Police Services issues \$450,295:

The final surplus for Police Services of \$900,589 was mainly the result of staff vacancies. As per past practice, 50% of this surplus is allocated to the Police Services Board municipal reserves. The Police Services Board has identified potential business plan investments that will require one time funding in the coming years, and accordingly have requested these funds be allocated to the Police Mandatory Issues Reserve.

The final 2021 financial position presented in this report also includes the 2021 posted reserve provisions for the following items:

Mandated Provincial Bill 124 Reserve for Building Permits \$1,667,572:

Bill 124 mandates that building activities are accounted for separately from municipal activities. Surpluses are reserved with the expectation that, in the event of declining building permit revenue, a draw from the reserve may be required to meet budget. This mechanism provides stability to the pricing of building permits. For 2021, building permit activity exceeded budget and the final year end surplus of \$1,667,572 was transferred to the Bill 124 reserve.

Insurance Risk Reserve (\$329,363):

The deficit in the Risk Management area, which included claim recoveries, insurance budget and outside counsel budget, was transferred from the Insurance Risk Reserve. This practice will be reviewed annually with the insurer's recommended balance of the insurance risk reserve.

Specific Operational Surpluses/(Deficits):

The operating surpluses/(deficits) in the following areas were transferred to/from reserves to address current and future operating pressures (e.g. economic

downturns), Provincial service requirements, building issues, rapid technology changes, etc. These areas can be vulnerable to economic and Provincial policy changes.

|  |             |
|--|-------------|
| • Health Services                        | \$ 95,255   |
| • Senior Services                        | \$1,225,181 |
| • Housing Services                       | \$1,242,678 |
| • Children's Services                    | \$ 108,011  |
| • Employment Services Economic Downturn  | \$ 862,707  |
| • Winter Control                         | \$ 347,926  |
| • Waste Diversion                        | \$ 178,685  |
| • Recreation Community Programs          | \$ (1,550)  |
| • Inclusive Recreation                   | \$ 18,194   |
| • Property Disposition                   | \$ 892,804  |
| • Closed Employment and Labour Relations | \$4,031,848 |
| • Transit                                | \$ 250,268  |
| • Community Improvement Plan             | \$ 350,906  |
| • Planning Applications                  | \$ 211,431  |
| • Together CK                            | \$ 239,851  |
| • Roadside Drainage                      | \$ 955,817  |
| • Public Works Dust Suppressant          | \$ 173,717  |

In addition, a \$40,076 accounting adjustment for 2021 interest charges on the Bloomfield Business Park was booked against the 2021 surplus rather than be re-capitalized and funded from future sales. Council approved this practice in 2008 and it is reported on an annual basis.

The final 2021 variance resulted in an operating surplus of \$290,000, or 0.08% of gross budget, and is detailed below. Appendix A includes a breakdown of the variance by Divisions.

| <b><u>Department</u></b>    | <b><u>FINAL 2021<br/>Surplus<br/>(Deficit)</u></b> | <b><u>Comments</u></b>  |
|-----------------------------|--|---|
| Non Departmental            | 5,157,567  | COVID-19 Recovery and Safe Restart Funding, Revenue increases and Wheatley Gas Leak initial funding |
| Chief Administrative Office | 53,821   | Software, professional fees surpluses   |

|  |                          |  |
|--|--------------------------|--|
| Mayor, Council & Admin Support                           | 71,217                   | Conference and car allowance surpluses   |
| Community Development                                    | 311,799                  | Planning Services staffing vacancies, decreased spending on travel and conferences in Economic Development   |
| Community Human Services                                 | 332,748                  | Staffing related vacancies in Libraries, Recreational Services, and Arts and Culture offset by program revenue losses due to COVID-19 restrictions   |
| Corporate Services                                       | 127,279                  | Staffing vacancies partially offset by reductions in revenue for Provincial Offences and Licensing due to COVID-19 restrictions  |
| Finance, Budget, Information Technology & Transformation | (680,064)                | Wheatley Gas Leak emergency security costs and Convention Centre deficit offset by Information Technology and Transformation staffing related vacancies                                    |
| Fire and Emergency Services                              | (2,353,062)              | Wheatley Gas Leak emergency staffing response costs  |
| Infrastructure & Engineering Services                    | (3,631,678)              | Public Works Wheatley Gas Leak emergency gas monitoring costs, Public Utilities Service Level Agreement deficit, Recreation Facilities program revenue losses due to COVID-19 restrictions |
| Police Services  | <u>900,589</u>           | Staffing related vacancies   |
| <b>Surplus</b>   | <b>\$ <u>290,216</u></b> |  |

**Areas of Strategic Focus and Critical Success Factors**

The recommendation in this report supports the following areas of strategic focus:

- ☒ Economic Prosperity:  
Chatham-Kent is an innovative and thriving community with a diversified economy
- ☐ A Healthy and Safe Community:  
Chatham-Kent is a healthy and safe community with sustainable population growth
- ☐ People and Culture:  
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- ☐ Environmental Sustainability:  
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendation in this report supports the following critical success factors:

- ☒ Financial Sustainability:  
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- ☐ Open, Transparent and Effective Governance:  
  
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- ☐ Has the potential to support all areas of strategic focus & critical success factors
- ☐ Neutral issues (does not support negatively or positively)

### **Consultation**

Each department has reviewed their 2021 final accounts.

Financial Services provided the final surplus reconciliation and the final reserve allocations for 2021. The audited financial statements will be presented to Council under a separate report.

### **Financial Implications**

The recommendation contained within this report will lower the winter control reserve by \$160,079 however will ensure there are no budget impacts during the 2023 budget process.

Prepared by: Steve Brown, CPA, CMA, Director, Budget & Performance Services

Reviewed by: Gord Quinton, MBA, CPA, CGA, Chief Financial Officer, Treasurer

Attachments: Appendix A – 2021 Final Variance by Division

Appendix B – 2021 Final Variance by Business Unit by Division