



Meeting Date: May 13, 2020

Submitted by: Tiffany Farrell, Director of Corporate Services

Report No: CPS-26-2020

Subject: COVID-19 Cost Containment Plan

Recommendation:

THAT Report CPS-26-2020 outlining the municipal Cost Containment plan be received for information.

Purpose:

To provide information to Council with respect to a cost containment plan staff have prepared in response to COVID-19. The plan is being implemented to ensure financial sustainability of the municipality through controlling costs to the greatest extent possible and to offset lost revenues due to COVID-19.

Background:

On March 17, 2020, the Municipality of Middlesex Centre and the Province of Ontario declared a state of emergency due to the COVID-19 pandemic. Since that time, the municipality's operations have changed significantly in response to this crisis. This includes facility closures and various service and operational reductions/modifications.

On March 30, 2020, Council approved interim financial measures to provide some financial relief to residents and businesses facing hardships due to the declared emergency.

On April 29, 2020, Council received an update on the financial implications to the municipality due to COVID-19 pandemic. At that time, staff forecasted a significant loss in revenues in 2020 due to the pandemic. Specifically, the following accounts are expected to be under budget for 2020: Provincial Offences Act (POA) revenue; interest and penalties on water and wastewater accounts; community services rental revenue; YMCA surplus revenue; numerous general revenue accounts (marriage license, lottery license, statement fees, miscellaneous); fire calls billed; and interest income.

Main findings with respect to COVID-19:

- The COVID-19 pandemic is expected to impact the world economy.
- The Federal and Provincial governments have established and implemented numerous financial programs for residents and businesses impacted by the pandemic, however there has not been any announced funding for Municipalities at this time
- Locally, the pandemic is creating financial challenges for the municipality:
 - Increased costs related to the COVID-19 pandemic.
 - Loss of revenues due to the pandemic.
 - Loss of revenues due to financial measures implemented in response to the hardships faced by our residents and business community.
 - Lower anticipated cash flows due to lost revenues as well as likely delayed payments on property tax and water/wastewater/stormwater accounts.

Analysis:

At this time, staff is not proposing any additional financial relief measures for Middlesex Centre; refer to Report CPS-25-2020.

The financial implications of the COVID-19 emergency response have swiftly affected municipal operations, which feel like a downward spiral with loss in revenues, lost interest income and increasing costs. As a measure of good fiscal governance, municipal staff are preparing to deal with these challenges. Moving from reaction to resilience is critical to the sustainability of the municipality so that planning for recovery and a new reality can begin. Municipalities are at the front-line to address local needs and ensure vital services are maintained, and staff need to be prepared to do this for our community.

Depending on the length of time the pandemic continues, the financial loss to the municipality has the potential to be significant and affect the operations of the municipality. Therefore, in response to the loss in revenues and increased costs related to the COVID-19 pandemic, staff have developed a cost containment plan with a number of directives to reduce costs and offset lost revenues with the goal of ensuring the long-term financial sustainability of the municipality.

The main purpose of the plan is to ensure financial sustainability of the municipality through controlling of costs to the greatest extent possible and offsetting loss in revenues because of COVID-19. Anticipated outcomes include: controlling costs through the management of discretionary spending; recovering costs where possible through grants and other forms of financial assistance; minimizing any potential deficit in the municipality's operating fund at the end of the year; and mitigating the impact of the municipality's reserve funds, among others.

Additionally, staff will be reviewing the COVID-19 related “fall-out” costs savings for 2020, such as savings related to the closure of recreational facilities and programs; fuel savings for vehicles and equipment considering the reduction in prices and use; natural gas and hydro savings because of facility closures; and the Province’s announcement of rate reductions.

Overview of the Loss Revenue to Middlesex Centre and COVID-19 Specific Costs

Staff are reviewing the estimated loss revenues and specific costs related to COVID-19. Currently there are \$120,350 in municipal costs associated with COVID-19 to date (the majority of these costs are payroll related). Staff are estimating a loss of revenue in excess of \$1M for 2020, mainly derived from Community Services. Staff are in the process of reviewing the loss revenue with respect to this fluid situation, and will continue to report to Council in a timely manner as more information is known.

Overview of the Cost Containment Plan

The following list of municipal directed mitigation measures/initiatives include:

Account / Initiative	Direction	Time Frame*	Estimated Savings
Professional Development	All discretionary professional development shall be cancelled for 2020. Professional development that is required as per legislation to maintain professional designation/license or continuing education the supports the municipal operations as approved by Human Resources and the CAO will be permitted.	Short Term and Medium Term March 17 - December 31, 2020.	\$123,600
Overtime	Minimal overtime shall be incurred during the pandemic, typically only in cases of emergency. Overtime is to be approved by the department director and CAO.	Short Term, may lead into Medium Term	Budgeted tax supported 2020: Short Term - \$25,121 Medium Term (except winter operations) - \$25,122
Program Supplies and Materials	Reduction to program supplies and material accounts. Includes items such as office supplies, non-capital equipment, consumables.	Short Term to Medium Term	\$46,700

Account / Initiative	Direction	Time Frame*	Estimated Savings
Other staffing costs (meals and catering, mileage and clothing allowance)	Reduction to other staffing costs accounts. This includes reductions to meals and catering, mileage, employee initiatives (surveys, service awards, appreciation lunches) and employee clothing allowance (with the exception of uniforms and health and safety required clothing).	Short Term to Medium Term	\$123,840
General Maintenance / Service Contracts	Reduction to general maintenance contracts – contacting vendors who do regular services in our facilities and advise that service levels are either reduced and/or suspended since facilities are closed (floor mats, commissioners for patrols)	Short Term to Medium Term	\$102,000
HR Recruitment	All HR recruitment is on hold unless approved by the CAO. Savings from salary gapping for positions.	Short Term	\$50,704
Reduction in levels of service (giving careful consideration to risk and liability for the municipality)	Consideration for reducing levels of service (i.e., reduction of grass cutting and other maintenance activities on sports fields; only responding to urgent calls for urban forestry issues, reduction in road maintenance).	Short Term to Medium Term	To be determined
New programs and initiatives in the 2020 budget	Consideration of not proceeding with new programs and initiatives included in the 2020 budget and delaying implementation until 2021.	Short Term to Medium Term	\$103,000
Staffing Costs	With our municipal part-time and contract employees off on a declared emergency leave, savings related to salaries and benefits. Additionally, currently seeing lower activity (training, lower call volumes) for our fire and emergency services, resulting in lower staffing cost.	Short Term	\$332,420
Total Projected Operational Savings			\$907,385

***Time Frames:**

- **Short Term** (March 18, 2020-June 18, 2020) – First three months of the pandemic.
- **Medium Term** (June 18, 2020 – December 31, 2020) – After the first three months of the pandemic until the end of the 2020 budget year.
- **Long Term** – Costs removed from the 2020 budget and deferred to 2021 budget.

User Rates Impact

From a user rate perspective, the closure of schools and businesses, and residents being water conscious (conserving water), has resulted in a decline in water consumption, which is negatively impacting both water and wastewater revenues. The Water/Wastewater department have identified cost savings of approximately \$75,162 to offset these potential losses.

Fall-out Cost Savings

Staff are currently monitoring the following accounts to determine a forecasted savings amount for 2020:

- Fuel
- Hydro
- Natural Gas
- Water/Wastewater

At this time, there is insufficient data to provide an estimated savings. Staff will report to council when the data becomes available.

2020 Capital Projects – (Short vs Long Term)

The total 2020 capital budget is \$20,916,013. Staff have reviewed the listing of capital projects to determine which projects can be deferred until 2021 to assist with the municipality's cash flow in response to COVID-19. Staff prioritized the projects based on levels of service, safety requirements, legislative requirements and contractual obligations and with respect to projects that had already been started or completed at this time. Staff were able to identify \$3.74M in the capital budget that can be deferred to 2021. The remaining \$17,172,175 of projects will continue in 2020, with some of the project costs spanning multiple years.

It is important to note that the capital projects being completed by the municipality will assist in stimulating the economy after the Provincial announcement that municipal construction projects may move forward and therefore will be beneficial to the community in many ways.

Further details can be found in the attachments:

- Deferral of potential 2020 capital projects to assist with cash flow with an anticipated savings of \$3,743,838; refer to Attachment 1.
- 2020 capital projects continuing in 2020 were broken down into medium priority and high level priority.

- High level priority capital projects were determined by the following criteria (refer to Attachment 2):
 - Safety issues, if this project is delayed this would affect the level of service for the community and can increase the risk and liability.
 - Contractual obligations, deferring the projects could result in delay claims and additional costs
 - Project being delayed would significantly impact the overall success of the project.
 - Project being delayed would significantly impact other planned capital projects for 2021 and beyond, or the project itself has long time lines which requires it to commence in 2020
 - Legislative requirements
 - Required equipment replacement
- Medium level priority projects were determined based on the following Criteria (refer to attachment 3):
 - Capital projects that are not essential however have already begun or are completed at this time.
 - Projects that costs will increase if completed at a later date and these projects will reduce long term operating costs.
 - Delays will result in higher than budgeted operational maintenance costs
 - Cost efficiency with tender projects as a group
 - Projects to determine the condition of existing assets to help plan for future projects.

Summary:

The 2020 Cost Containment Plan supports reasonable oversight of financial resources. It also ensures program managers and departments are held accountable for the programs they manage and provides transparency as to where public dollars are spent.

Under the *Municipal Act*, a municipality must fund any annual deficit through the budget the following year. Given the current crisis, this has the potential to create a significant burden on the ratepayers in the community. Staff will continue to identify areas where costs can be avoided, but it is difficult to accurately forecast the full financial impact at this time since the end of the crisis cannot be predicted.

The municipality has a reserve fund (tax rate stabilization reserve fund) that can be used in situations like this. The municipality also has access to a \$1M line of credit authorized through its temporary borrowing by-law.

Similar financial measures are being implemented in other municipalities in the Province of Ontario to mitigate the impacts of the current economic crisis on the greater community.

The municipality is taking proactive measures to mitigate the overall impact through a cost containment plan; however, further assistance may be required from the Federal and Provincial governments to reduce the overall financial burden on the municipality.

Financial Implications:

Operational Cost Savings – \$907,385

Fall-out Operational Savings – unknown

Capital Deferral to 2021 Savings – \$3,828,200

Strategic Plan:

This matter aligns with following strategic priorities:

- 3c. Quality of Life: Meeting the needs of both current and future citizens.
- 5a. Operational Excellence: Maintaining positive staff-community relations.
- 5f. Operational Excellence: Adapting to changing demands and expectations.

Attachments:

Attachment 1: COVID-19 cost Containment Plan Capital Deferred

Attachment 2: COVID-19 cost Containment Plan Capital Continuing Medium Priority

Attachment 3: COVID-19 cost Containment Plan Capital Continuing High Priority