

## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **November 4, 2021**

FROM: **General Manager, Finance**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report – Third Quarter - 2021**

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## RECOMMENDATION

The Finance Department recommends that Council receive this report for information.

## INTENT

The purpose of this report is to provide Council with an update on the City's financial activity for the third quarter of 2021 and to compare this activity with the 2021-2025 Financial Plan.

## DISCUSSION

The following discussion provides a summary of the current economic environment including key economic factors globally, nationally, provincially, and within the City, including the continuing financial implications of COVID-19, followed by an outline of Surrey's financial performance through the third quarter of 2021, in comparison to the Five-Year (2021-2025) Financial Plan which was adopted by Council on December 21, 2020.

### **Economic Environment and Key Economic Factors**

#### International Overview

The International Monetary Fund ("IMF") projects the global economy to grow 6.0% in 2021 and 4.9% in 2022. The IMF's latest worldwide forecast is unchanged from previous projections in April, but with offsetting revisions. Prospects for emerging market and developing economies have been marked down for 2021, especially for Emerging Asia. By contrast, the outlook for advanced economies is revised up. Upgraded forecasts include the United States ("US") and United Kingdom ("UK") at 7.0% growth, with Canada and the Eurozone following behind at 6.3% and 4.6% respectively. China's growth outlook was adjusted slightly downward to 8.1% for this year.

The IMF noted elevated inflationary pressures around the world and attributed the pronounced price increases to developments from the pandemic and a mismatch between supplies and demand. The organization expects high inflation to be transitory. Central banks around the world have provided record levels of monetary support throughout the pandemic. Increased inflation has led

central banks to issue guidance to the market that interest rates may be raised sooner than initially anticipated.

The world economy is diverging, with advanced economies on the path to normalization and recovery later this year while developing nations lag behind due to limited access to vaccines. As the pandemic took hold, energy producers ramped down investments in the sector, leading to well-below average inventory levels. As restrictions eased globally, the demand for energy bounced back. Now, the supply of oil, gas and coal are struggling to keep up with improving demand, causing prices to soar. Energy prices recorded multi-year highs in the US, Europe, and China. The high prices and limited supplies are threatening disruptions in global supply chains.

The UK's economic recovery is being hampered by a jump in inflation, major supply chain disruptions and labour shortages. The Bank of England ("BoE") is forecasting inflation to rise to 4.0% by end of year due to surging energy prices. The UK central bank has hinted that interest rate hikes may happen in early 2022. The labour crunch worsened when the country left the European Union ("EU"), ending the free flow of workers. The mass exodus of foreign workers has led to supply chain disruptions, with shortages experienced in food and gasoline. The issue has been exacerbated through panic buying by consumers. The British military had to be brought in to deliver fuel to gas stations amidst a shortage in truck drivers. Prime Minister Johnson's government announced that it will attempt to recruit foreign truckers through temporary work visas to help alleviate the distribution bottlenecks.

China's economy is facing headwinds that are alarming investors. Evergrande, the second largest property developer in China by sales, missed recent coupon payments to bondholders and is facing potential defaults. The company, estimated to hold more than \$300 billion in liabilities, is now trying to sell assets in a bid to raise cash. Analysts expect that the Chinese government will step in to limit the potential damage that a default would cause but may stop short of bailing the company out as it would send the wrong signal to other corporations. Two smaller Chinese property developers have already defaulted on their bonds, heightening concerns in international debt markets. Chinese economic growth is expected to slow in the coming months due to energy shortages. Scarcity in electricity has hampered the manufacturing sector, which will have trickle down effects to other economies around the world.

### United States Overview

The US economy grew by an annualized rate of 6.7% in the second quarter due to strong consumer consumption, trillions of dollars in stimulus payments, unemployment aid, and supports provided by the federal government. Economists are estimating third quarter Gross Domestic Product ("GDP") growth to come in lower at 4.0% due to the unwinding of government support and increased COVID-19 cases hampering demand.

The US unemployment rate fell to 4.8% at the end of quarter three. There were 194,000 jobs added in September, well short of analysts' expectations. The US Labor department estimates there are 8.2 million currently unemployed Americans even though there are 10 million job openings available. Despite average wage gains of 4.6% in September compared to the prior year, employers are still having difficulty filling jobs. Economists are suggesting that there is a mismatch between job availability and the type of work job seekers are looking for. The resurgence of COVID-19 cases has kept some workers from seeking high-contact jobs in the service sector, additionally, many frontline workers have chosen different career paths.

US inflation edged up to a 13-year high of 5.4% in September. The Federal Reserve (“Fed”) expects the higher rate of inflation to be transitory. The central bank attributes inflation partly to base-year effects, whereby prices declined sharply last year due to COVID-19 and then reversed course in 2021, coupled with strong demand and supply chain constraints. The Fed signalled that it may reduce its bond purchases as early as November and interest rates may rise sooner than it had previously anticipated. Some forecasts see rates increasing once next year with three more increases anticipated in 2023. The US dollar index, which measures the strength of the greenback against other major currencies, rose to a one-year high on the news that the Fed is planning an accelerated tapering of its stimulus measures.

The US is yet again facing a political showdown over its borrowing limit. In mid-October, President Biden signed a bill to raise the Federal Government’s debt limit by \$480 billion dollars to \$28.9 trillion. Treasury Secretary Janet Yellen warned that the reprieve is temporary as the new debt limit will only allow the government to pay its bills through December 3rd of this year. Top Senate Republican Mitch McConnell has said his party will not help Democrats pass a more long-term solution. Yellen is calling on Congress to come to an agreement on increased borrowing capacity so that the US can provide assurance that it is able to meet its long-term debt obligations. If the US were to default on its debt obligations, it would trigger a jump in interest rates, tarnish faith in the country’s ability to honor its future obligations and potentially delay payments to Social Security recipients and members of the armed services. Republicans and Democrats disagree on how to lift the borrowing cap as both parties are looking ahead to the 2022 midterm elections and attempting to best position themselves politically with voters on the issue of fiscal responsibility.

### Canadian Overview

The Canadian economy shrank at an annualized rate of 1.1% in the second quarter due to a pull back in the housing market and supply chain disruptions which hampered exports. The Bank of Canada (“BOC”) cautions that rising COVID-19 cases and supply chain issues could weigh on the economic recovery. In quarter two, supply shortages led to a sharp decline in exports for the automotive sector.

Inflation has exceeded 3.0% since April of this year and came in at 4.25% in September, compared to the same month last year. The BOC attributed higher inflation to base-year effects, higher gasoline prices and pandemic-related supply bottlenecks. The central bank is forecasting inflation to increase to about 4.75% in the fourth quarter of 2021. The rate of price growth is expected to decelerate to about 2.0% by the end of 2022 as disruptions to supply gradually fade. The BOC noted that inflationary pressures are not as concerning for household purchasing power as Canadians have built up savings during the pandemic.

The BOC held its key interest rate at 0.25% but ended its Quantitative Easing (“QE”) federal government bond buying program after more than a year and a half of applying this monetary stimulus measure. Economists see the withdrawal of QE as a signal that interest rates are set to rise, with some expecting as many as four rate hikes by the end of next year.

With 157,000 jobs created, the national unemployment rate came in at 6.9% in September, the lowest level since the start of the pandemic. The gains in September were led by advances in the food and services sectors. Employers in the service and hospitality industries continue to face challenges in filling positions as many frontline workers continue to exhibit hesitancy in rejoining high-contact work environments.

The country's largest employer, the Government of Canada, required all federal public servants at the Core Public Administration and Royal Canadian Mounted Police ("RCMP") to be fully vaccinated by the end of October. Unvaccinated employees are being barred from going to work, either in person or remotely, and will be put on unpaid leave with no access to employment insurance ("EI") benefits. Federal contractors must also be fully vaccinated to gain access to government buildings. Crown corporations and government entities, such as the House of Commons and Senate, are also required to mirror the federal policy under their own governance framework. It is expected that the acting chief of the defence staff will also issue a directive requiring vaccination for members of the Canadian Armed Forces.

Employers in the federally regulated air, rail, and marine transportation sectors also had until the end of October to establish policies that ensure employees are vaccinated. All airline and airport staff, including people who work at restaurants or retail stores in the post-security area, must be fully vaccinated. All employees of federally regulated railways, including rail crew and track employees, must be fully vaccinated as well. All travellers aged 12 and older as of October 30<sup>th</sup> must also be fully vaccinated before boarding planes, trains, or marine vessels, including cruise ships.

The US has announced that, starting November 8th, it will reopen its land border to non-essential travel for fully vaccinated Canadians, including those with mixed doses of COVID-19 vaccines. U.S. Customs and Border Protection has confirmed that travellers crossing the land border from Canada into the US will not be required to show proof of a negative COVID-19 test. Canadian officials have announced that travellers are required to produce a negative test result when re-entering Canada by land. It is expected that this requirement will limit the number of short-term trips over the border, delaying the full return to normal for cross-border commerce.

### British Columbia Overview

At the end of August, the Provincial Health Officer ("PHO") reintroduced a mask mandate for indoor public spaces due to increasing COVID-19 cases. The move to Phase 4 of BC's Restart Plan did not proceed as planned at the beginning of September. The criteria for moving to Step 4 is more than 70% of the 18+ population vaccinated with dose one, along with low case counts and low COVID-19 hospitalizations. On October 25th, the PHO order restricting capacity limits to 50% for inside organized events and gatherings was revised to allow 100% capacity in those settings where the BC Vaccine Card is in place and proof of vaccination status is checked. Additionally, the requirement to remain seated at a table in restaurants and pubs will be lifted. Indoor mask requirements remain in effect for all indoor gatherings and events. The changes apply to indoor sporting events, concerts, movie theaters, dance and symphony events and other indoor organized events such as weddings and funeral receptions.

The PHO introduced targeted restrictions in the Interior, Northern and eastern Fraser Valley health regions to help curb the spread of COVID-19. The easing of capacity limits and freedom of movement at seated events does not apply to these regions. To further stem infections, the BC government implemented vaccine passport requirements for access to non-essential services. It is hoped that this requirement will make high-touch activities safer and increase vaccine uptake.

BC's GDP is forecasted to grow by 6.0% this year. The provincial unemployment rate came in at 5.9% in September. BC's job market has fully recovered with employment above pre-pandemic levels. Job gains were made in the manufacturing, construction, food services and accommodation sectors.

In the 2021/2022 first quarter update, BC's finance minister projected a deficit of \$4.8 billion for the current year, down from the initial budget of \$9.7 billion. The improved outlook is due to a stronger recovery in various sectors of the economy, leading to higher personal and corporate tax revenues. Additionally, increases in natural resource revenue and federal funding are also projected. The provincial government is expected to present details and a timeline for returning the province back to a balanced budget when it presents the 2022/2023 budget.

The BC Public Service Agency announced that all of its approximately 30,000 employees must be fully vaccinated by November 22nd. The PHO also announced that all long-term care and assisted living workers were required to have both shots of a COVID-19 vaccine by October 12th. Unvaccinated workers will have to take a mandatory leave of absence without pay. As of October 26th, all health-care workers in BC and visitors to acute care facilities must also show proof of vaccine. More than 4,000 health-care workers missed the deadline, were put on unpaid leave, and could potentially have their employment terminated if they choose not to comply with the vaccination requirements. The PHO has continued to reiterate that outside of healthcare, vaccine mandates will be at the discretion of the employer. Currently, there is no such mandate for schools. The City of Vancouver became the first local government to require its employees to be vaccinated, with a deadline of early December. The City's vaccination policy will be outlined in the corporate report entitled COVID-19 Emergency Operations Centre Update, also being presented at Council on November 8, 2021. It is expected that other municipalities will follow suit in the near future.

### City of Surrey Overview

On May 25, 2021, the Province outlined their four-step reopening plan ("BC Restart Plan"). In response to the BC Restart Plan, the City's Emergency Operations Centre ("EOC") prepared the Surrey Restart Plan which outlines what changes will be made to facilities and services with each step of the BC Restart Plan. The City, as of July 1, 2021, is currently offering its services in line with Step 3 of the BC Restart Plan and will move to Step 4 in coordination with the Province's move to Step 4, when that happens.

The Surrey Economic Action and Recovery Plan from the COVID-19 Pandemic, approved by Council in 2020, granted financial incentives to the development community in the City to encourage and accelerate the implementation of larger scale projects that could generate jobs and important investments in the City that will be of benefit to Surrey's residents and businesses. The City is collaborating with the development community, seeking to satisfy the conditions of the program for eligible projects ahead of the December 15, 2021, permit issuance deadline. The City has also initiated a project to accelerate and enhance its development approval process to expand online permit services, increase access, and reduce costs resulting in reduced permitting approval process time. Through the Province's 2021 Local Government Development Approvals Program, the City has received \$500,000 in grant funding for this project.

To support local businesses in the restaurant and food services industry to help mitigate further financial impacts due to COVID-19 and to create more vibrant outdoor spaces, Council approved a Parking to Patio program in the second quarter of 2021. Under this program, Council has allowed for the creation of temporary patios, expanded the list of eligible enhancements under the Façade Enhancement Grant to include support for temporary patios; and revised the Parking to Patio Program requirements by waiving of the \$200 application fee; waiving a refundable \$500 security deposit for approved on-street applications; and continue to waive City Road & Right of Way Use and Traffic Obstruction permit fees. This Program was initially available until October 31, 2021, but has now been extended to October 31, 2022.

To proactively stimulate the local economy and create local jobs, Council has recently awarded, or is in the process of awarding, major capital projects' contracts for several Recreation and Culture facilities and other major capital infrastructure projects within the City.

In the remaining months of 2021, the City expects a continuation of the financial impacts to the City due to the COVID-19 pandemic. The most significant negative impacts expected on the City's financial health in 2021 are as follows:

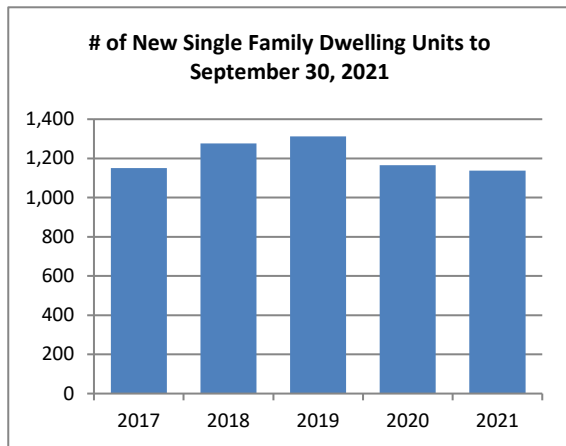
- loss of City revenues due to the reopening of such facilities at less than 100% capacity; and
- loss of Provincial gaming revenues resulting from the closure of the Elements Casino and its reopening at less than 100% capacity.

Loss of City revenues due to closure of City facilities is expected to be offset by cost avoidance in relation to salaries and operating costs. Other losses to City revenues or increases in City costs due to COVID-19 will continue to be managed by staff by closely administrating their respective budgets.

### City of Surrey's Key Performance Indicators

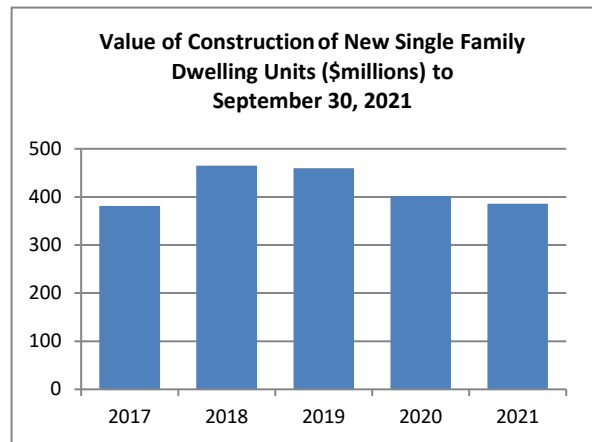
The City has seen a 34% increase in overall value of construction in all categories combined, residential and non-residential, in the first nine months of 2021 as compared to the same period in 2020. The residential sector saw an increase of 48% in the value of construction year-over-year and the Industrial, Commercial and Institutional ("ICI") sector saw a decline of 1% in the value of construction year-over-year. Overall, the total number of building permits issued in 2021 are 5% higher than the building permits issued during the same period in 2020 and the number of new residential dwelling units granted permit in 2021 are 51% higher than the same period in 2020.

The following graphs show data for the first nine months of 2021 compared to the same period from the last few years.



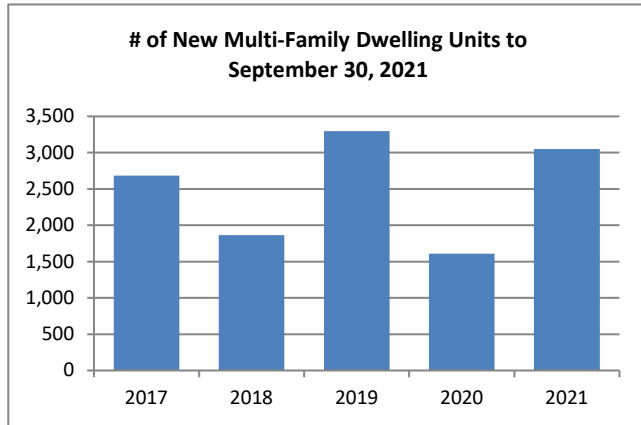
Graph 1

The City has experienced a slight shift in construction activity, from single-family to multi-family dwelling types, resulting in a minor change (2% decrease) in the number of new single-family dwelling units, when compared to the same period last year.

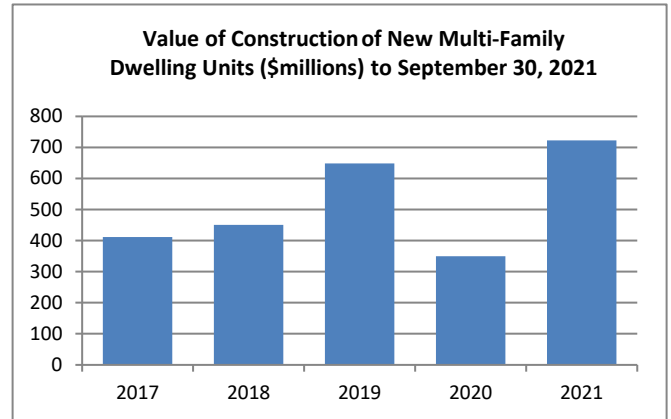


Graph 2

Consistent with the change in the number of new single-family dwelling units issued permits in this nine-month period as compared to the same period last year; the value of construction of these units has slightly changed (4% decrease) when compared to the same period last year.



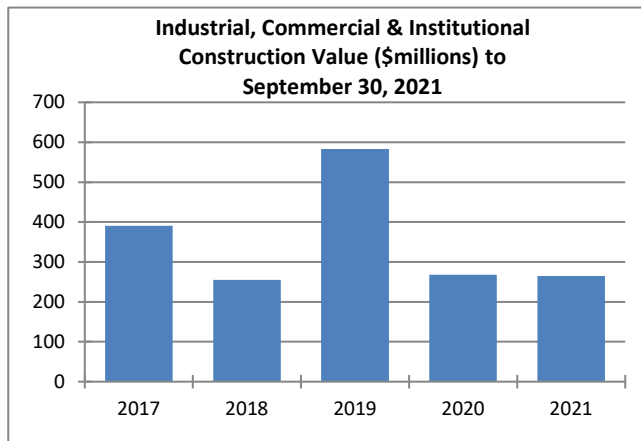
Graph 3



Graph 4

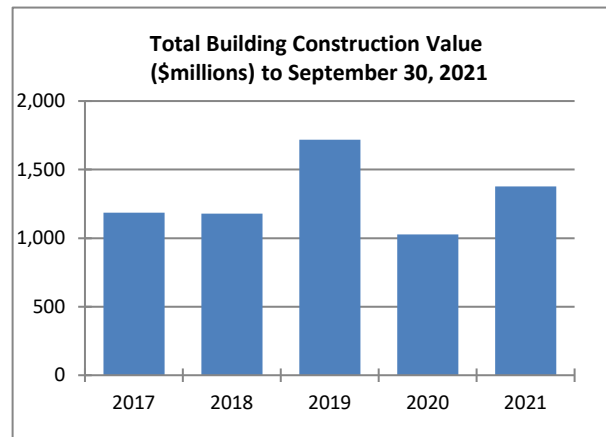
In alignment with an increase in overall real estate residential activity, the City has seen an increase in permits issued for multi-family dwelling units, helped in part by the City's Surrey Economic Action and Recovery Plan from the COVID-19 pandemic that granted financial incentives to the development community in the City to encourage and accelerate the implementation of larger scale projects that could generate jobs and important investments in the City. Year-to-date, the number of new multi-family dwelling units has seen an increase of 90% year-over-year.

Consistent with the increase in the number of permits for multi-family dwelling units in this period as compared to the same period last year, the value of construction for these units has increased by 107% when compared to the same period last year.



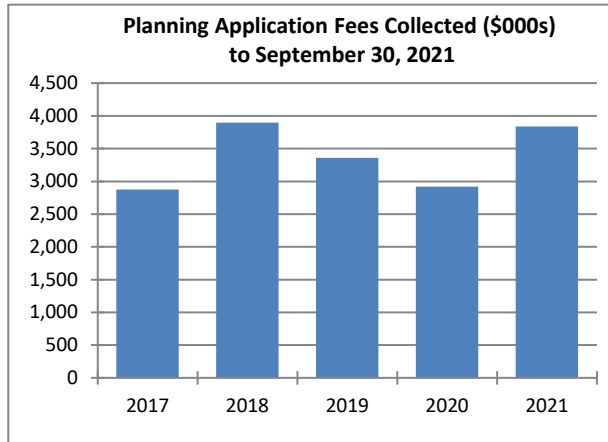
Graph 5

Construction value of ICI permits for the first nine months of 2021 is lower by 1% as compared to the same period in 2020. This is primarily due to some significantly large institutional projects that received permits in the first three quarters of 2020.



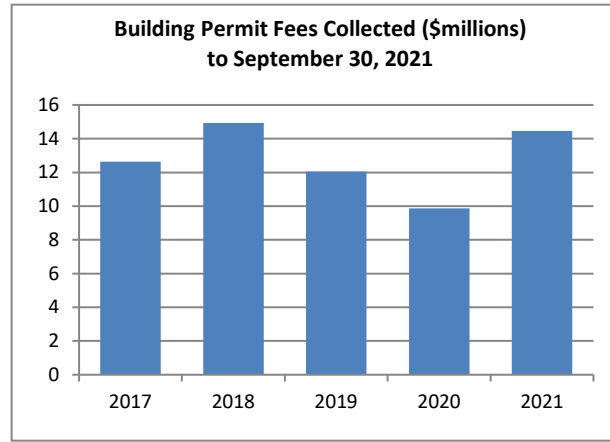
Graph 6

Consistent with an overall increase in the number of new residential construction values; and due to an industry wide increase in cost of construction, total building construction value in the City year-to-date is higher by 34% compared to the same period last year.



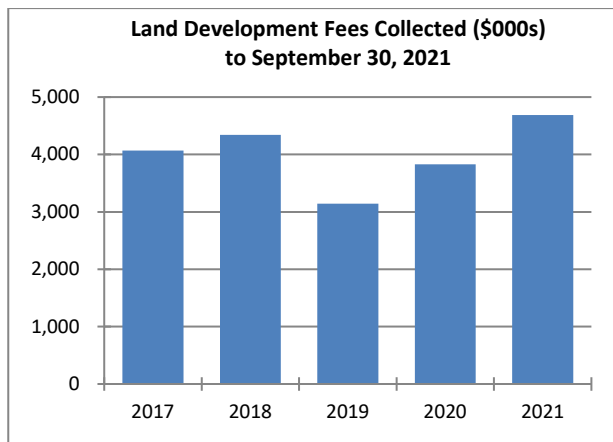
Graph 7

Due to a robust real estate market and the continued increased demand for residential development in the City, Planning application fees collected in the first nine months of the year are 32% higher than those collected in the same period last year.



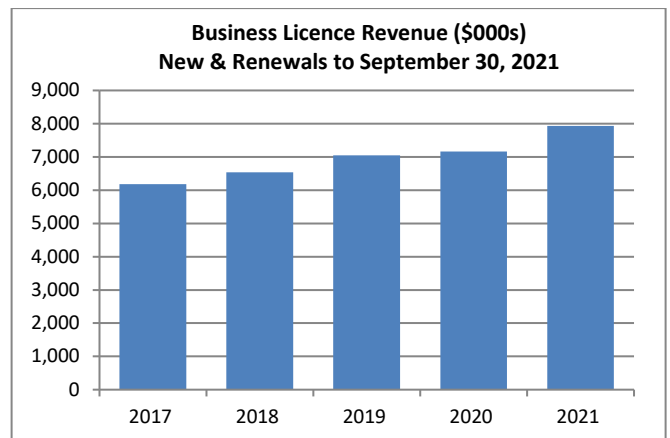
Graph 8

Consistent with a significant increase in construction values in the residential sector, total building permit fees collected for the first nine months of this year are 47% higher than those collected in the same period last year.



Graph 9

Consistent with the increase in Planning applications processed by the City in the first nine months of the year, Land Development fees collected for the first nine months of 2021 is 22% higher as compared to the same period in 2020.



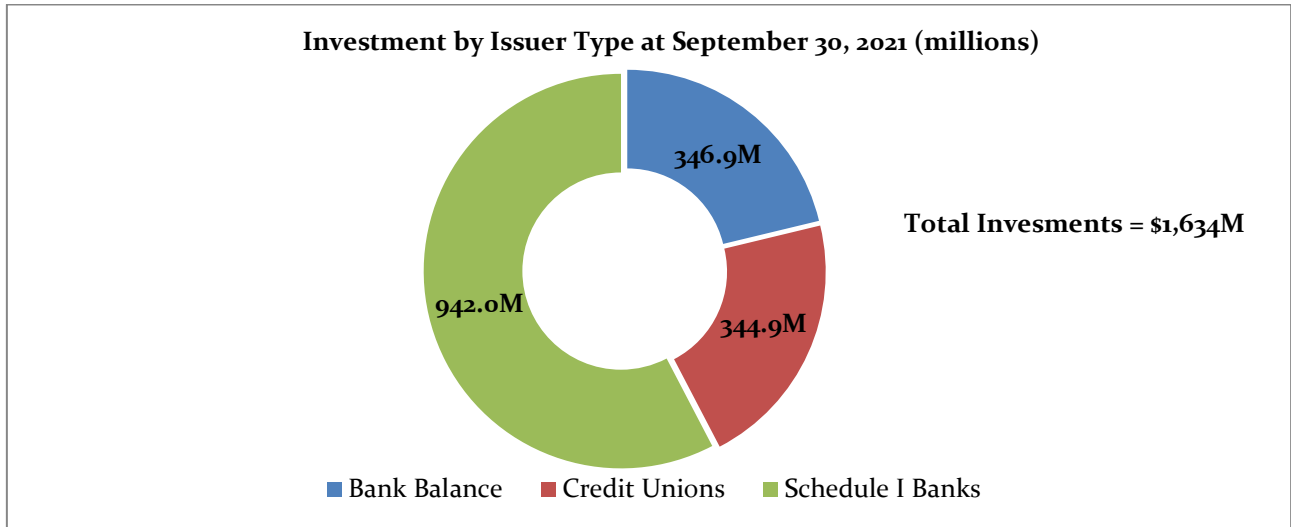
Graph 10

Due to a 18% increase in the number of businesses obtaining their business license in the first nine months in 2021 as compared to the same period in 2020, Business Licence revenue has increased by 11% as compared to the same period last year. This is indicative of resumed confidence in the business community to get back to growing their businesses in Surrey.

## City Investment Portfolio

The City invests public funds in a prudent manner, providing investment return and long-term security while meeting daily cash flow needs. The investment portfolio is currently valued at \$1,634 million. Most of these funds have either been committed to specific capital projects or are funds that have been invested until they are needed to pay current operating expenses. The following graph shows the City's Investment Portfolio by issuer type.



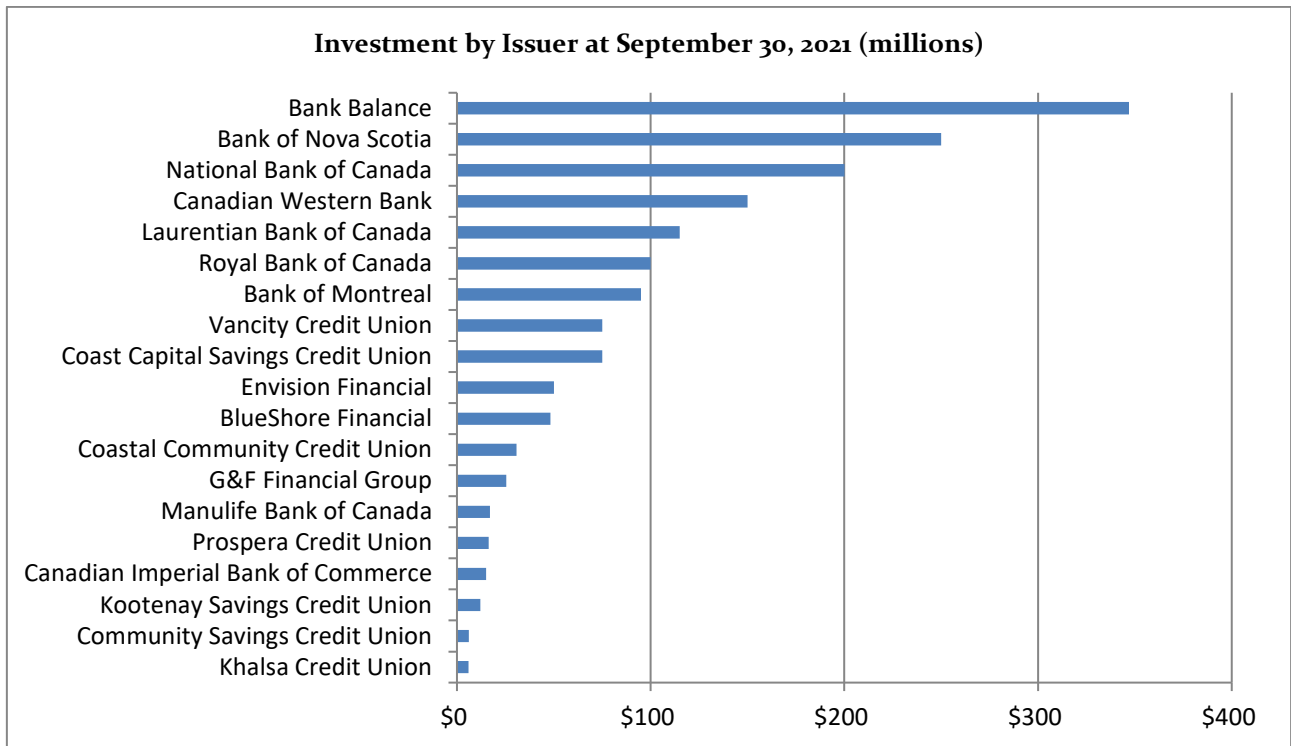


Graph 11

Investments within the portfolio are managed within the framework of the City’s Investment Policy. Objectives of the Policy include:

Diversification

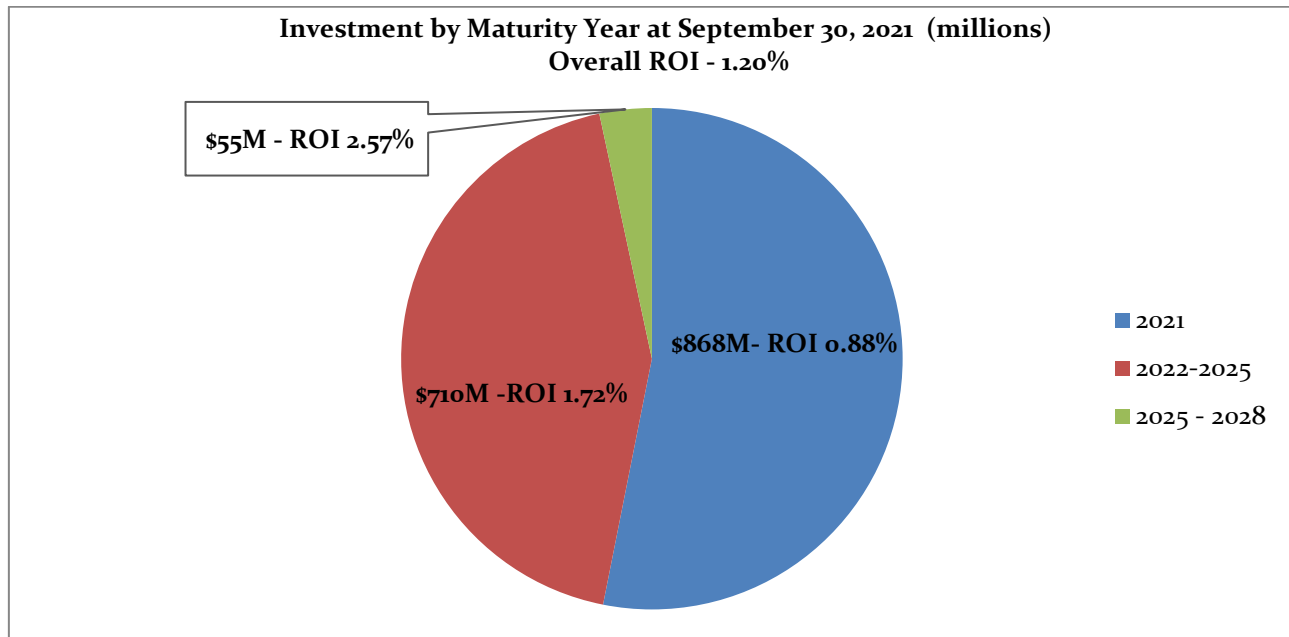
In order to reduce overall portfolio risk, the City diversifies its investment holdings across a range of security types and financial institutions. Graph 12 shows a listing of the City’s portfolio by Financial Institution.



Graph 12

## Liquidity

Efforts are being made to ensure that the investment portfolio remains sufficiently liquid in order to meet all reasonably anticipated operating and capital cash flow requirements. The investment portfolio is managed through the laddering of investment maturities to account for the timing of cashflow demands. The City's forecasted cash balances are currently in a healthy position with efforts ongoing to remain prepared as new information is incorporated into the cashflow forecast. In the event the City's cash flow requirements change drastically, we are well positioned to add liquidity as necessary. Graph 13 shows the portfolio by maturity terms.



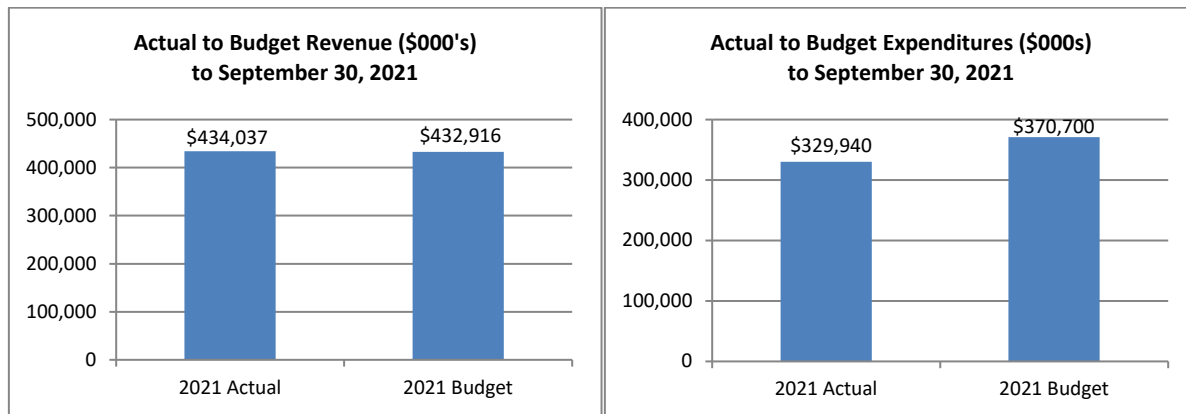
Graph 13

## Return on Investment

During the nine-month period ending September 30, 2021, the City's investment portfolio earned a combined rate of approximately 1.20% (during the nine-month period ending September 30, 2020 – 1.99%) while maintaining investment security as outlined in the City's investment policy. The City strives to earn a reasonable rate of return on the investment portfolio throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

## **Actual Revenues and Expenditures Relative to the Budget**

The following graphs illustrate the variances between the actual and the budgeted operating revenues and expenditures respectively, excluding Corporate transfers to reserves, for the first nine months of 2021.



Graph 14

Graph 15

Appendix “I” documents the General Operating Fund’s revenues and expenditures at the end of the third quarter of 2021 at a more detailed level. Departments are proactively monitoring their actual results on a monthly basis. The following section provides an explanation on a Department-by-Department basis of year-to-date and forecasted variances in relation to the 2021 budget and as shown in Appendix “II”.

### Policing Operations

The 2021 Policing Operations budget was allocated on the assumption that the RCMP would provide 75% of the policing services in 2021 while SPS would provide 25%. Actual approvals for deployment have taken longer than anticipated. Current approvals allow for the deployment of 50 SPS officers by November 30, 2021. Therefore, the anticipated 75/25 of policing operations will not be achieved. Budget allocations for 2022 and beyond are being adjusted accordingly. Going forward it is critical that the budget is aligned with the actual deployment of SPS and demobilization of RCMP plans approved by the SPTTC.

Regarding the expenditures to date for 2021, it is important to note that the policing operations budget is comprised of three separate budgets that are outlined below. Due to the delays in commencing deployments SPS has a favourable variance and RCMP has an unfavourable variance reflecting the actual on the ground policing operations. It is imperative to consider all three policing budgets in aggregate (City Police Support Services, Surrey Police Service and the RCMP Contract), and in totality, staff are forecasting Policing Services to have a favourable variance at year end of \$1.0M.

### *Expenditures to Date*

- **Surrey Police Service** currently has a favourable variance of \$9.0M primarily due to the timing of hiring and deployment of SPS members. This will result in a significant favourable variance for the SPS in relation to the originally allocated budget at year end. The favourable variance is currently forecasted at \$30.0M. The favourable variance will be necessary to fund the RCMP contract for the remainder of the fiscal year as the RCMP is providing in excess of the 75% originally allocated.
- **RCMP Contract** currently has an unfavourable variance of \$5.1M primarily due to 75% funding provided for in the adopted budget. This will also result in a significant unfavourable variance at year end for the RCMP Contract in relation to the originally allocated budget. The unfavourable variance is currently forecasted at \$32.0M. This unfavourable variance will be directly offset by the favourable forecasted variance for SPS.

- **City Police Support Service** currently has a favourable variance of \$2.8M primarily due to more than budgeted revenues from Traffic Fine revenue sharing from the Province, an increase in Police Information Check revenues and savings from vacancies. It is forecasted that City Police Support Service will have a favourable variance of \$3.0M at year-end.

In addition to the unfavourable variance for RCMP in 2021 operating budget, there are further funding shortfalls due to the ratification of the Collective Agreement and implementation of new salary rates in 2021. As indicated in Corporate Report No. R188; 2021 Financial Impact of RCMP Members Collective Agreement, attached as "Appendix III", staff are forecasting a funding shortfall of approximately \$25.0M directly related to the ratification of a collective agreement between the RCMP members and the Government of Canada. Staff will be recommending this shortfall be funded from a combination of savings from the current fiscal year that are expected to materialize at year end and temporary internal borrowing with related repayments by the public safety budgets allocations for the next 10 years. This will be reflected as part of the 2022 budget.

Fire Department currently has a favourable variance of \$1.3M resulting from the timing of revenues and expenditures and are forecasted to have favourable variance at year end of \$0.3M.

Engineering Services-General Operating currently has a favourable variance of \$4.0M, primarily due to higher-than-expected land development revenues, grant revenues for capital projects and savings from vacancies. Currently, Engineering Services are forecasted to have a favourable variance at year end of \$2.8M.

Parks, Recreation & Culture (PRC) Department currently has a favourable variance of \$8.4M. This is primarily resulting from a loss of revenues due to facilities not operating at normal capacity, which is offset by cost avoidance in relations to salaries and operating costs. At this point staff are forecasting a favourable variance for PRC at year end of \$8.1M.

Surrey Public Library currently has a favourable variance of \$1.2M, due to timing differences, savings from vacancies and operating costs due to COVID-19 related facility reduced operating levels and is forecasted to have a small favourable variance at year end of \$0.1M.

Planning & Development Department which also includes Civic Facilities, currently has a favourable variance of \$10.5M, primarily due to higher-than-expected permit and planning application revenues, cost savings from vacancies and reduced facilities' supplies and maintenance expenses due to COVID-19 related reduction in utilization of City facilities. Staff are currently forecasting a favourable variance at year end of \$9.5M.

Mayor and Council has a favourable variance of \$0.2M, resulting from savings from vacancies and in operating costs due to the COVID-19 pandemic. It is forecasted to have a small favourable variance at year end of \$0.3M.

City Grants are currently on budget and are forecasted to be meet budget at year end.

City Manager's Department has a favourable variance of \$0.4M primarily due to the timing of expenditures and savings from vacancies and is forecasted to have a favourable variance at year end of \$0.5M.

Investment & Intergovernmental Relations Department currently has a favourable variance of \$0.4M, primarily due to the timing of expenditures and is forecasted to have a favourable variance at year end of \$0.3M.

Finance Department currently has a favourable variance of \$1.7M, primarily due to higher-than-expected revenues from property tax inquiries and savings from vacancies and is forecasted to have a favourable variance at year end of \$1.5M

Corporate Services Department has a favourable variance of \$0.2M, due to timing of expenditures, and savings from vacancies. They are forecasted to have an unfavourable variance at year end of \$0.9M, primarily a result of higher than budgeted security costs at North Surrey Recreation Centre, which is being used as an Emergency Response Centre in collaboration with BC Housing and Fraser Health Authority to prevent the spread of COVID-19 among people experiencing housing instability during the pandemic.

Management proactively monitors actual to budget analysis with great detail with a view to ensure that positive variances are materialized by year end, this fiscally prudent and conservative approach is in alignment with best practice for budget management for public sector entities.

## CONCLUSION

The overall fiscal performance of the City in relation to the adopted budget at the end of third quarter of the 2021 fiscal year is indicative of a stable and strong financial position. All departments are proactively managing their respective budgets to ensure the financial position of the City for the remainder of the year remains strong and the City collectively meets budget at year end. In this regard, staff will continue to monitor all financial indicators and will take proactive actions as deemed necessary to ensure the City continues its strong financial performance for the remainder of the year.

Kam Grewal, CPA, CMA  
General Manager, Finance

Appendix "I": 2021 Third Quarter Council Report, Executive Summary - Revenues & Expenditures  
Appendix "II": 2021 Third Quarter Council Report, Departmental Detail  
Appendix "III": Corporate Report No. R188, 2021 Financial Impact of RCMP Members Collective Agreement



## Appendix "II"

<b>2021 3rd QUARTER COUNCIL REPORT</b> <b>DEPARTMENTAL DETAIL</b> <b>\$ 000's</b>
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	2021: 3rd Qtr YTD ACTUAL	2021 YTD BUDGET	2021: 3rd Qtr YTD Variance	2021 Projected ACTUAL	2021 ANNUAL BUDGET	2021 Projected Variance
<b>PROGRAM REVENUES</b>						
City Police Support Service	7,337	6,153	1,184	9,508	8,204	1,304
Surrey Police Service	-	-	-	-	-	-
RCMP Contract	-	-	-	-	-	-
Fire	3,543	2,289	1,255	3,525	2,401	1,124
Engineering Services	8,179	6,325	1,854	10,281	8,354	1,927
Parks, Recreation & Culture	8,677	25,510	(16,833)	13,500	34,269	(20,768)
Surrey Public Library	899	1,241	(342)	1,206	1,642	(436)
Planning & Development	25,998	18,721	7,276	32,092	24,962	7,130
Mayor & Council	-	-	-	-	-	-
City Grants	-	-	-	-	-	-
City Manager	-	-	-	-	-	-
Invest. & Intergovernmental Relations	-	-	-	-	-	-
Finance	1,414	1,135	279	1,847	1,513	334
Corporate Services	7,309	7,571	(263)	9,730	10,095	(366)
<b>TOTAL PROGRAM REVENUES</b>	<b>63,356</b>	<b>68,945</b>	<b>(5,589)</b>	<b>81,689</b>	<b>91,439</b>	<b>(9,750)</b>

	2021: 3rd Qtr YTD ACTUAL	2021 YTD BUDGET	2021: 3rd Qtr YTD Variance	2021 Projected ACTUAL	2021 ANNUAL BUDGET	2021 Projected Variance
<b>PROGRAM EXPENDITURES NET OF TRANSFERS</b>						
City Police Support Service	22,930	24,573	1,643	32,548	34,232	1,684
Surrey Police Service	16,598	25,649	9,050	31,166	61,142	29,976
RCMP Contract	90,972	85,838	(5,134)	128,881	96,892	(31,989)
Fire	48,164	48,198	34	68,985	68,162	(823)
Engineering Services	7,751	9,933	2,182	12,087	12,962	875
Parks, Recreation & Culture	51,189	76,419	25,230	76,534	105,410	28,876
Surrey Public Library	13,930	15,427	1,497	20,470	21,015	545
Planning & Development	21,469	24,700	3,231	31,298	33,669	2,371
Mayor & Council	1,057	1,290	233	1,448	1,766	318
City Grants	1,646	1,646	-	1,839	1,839	-
City Manager	764	1,136	371	1,055	1,550	495
Invest. & Intergovernmental Relations	814	1,211	397	1,357	1,651	294
Finance	7,279	8,674	1,395	11,004	12,188	1,184
Corporate Services	35,064	35,530	466	48,824	48,254	(570)
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>319,626</b>	<b>360,222</b>	<b>40,597</b>	<b>467,496</b>	<b>500,731</b>	<b>33,236</b>

	2021: 3rd Qtr YTD ACTUAL	2021 YTD BUDGET	2021: 3rd Qtr YTD Variance	2021 Projected ACTUAL	2021 ANNUAL BUDGET	2021 Projected Variance
<b>NET PROGRAM</b>						
City Police Support Service	15,593	18,420	2,827	23,040	26,028	2,988
Surrey Police Service	16,598	25,649	9,051	31,166	61,142	29,976
RCMP Contract	90,972	85,838	(5,134)	128,881	96,892	(31,989)
Fire	44,621	45,909	1,289	65,460	65,761	301
Engineering Services	(429)	3,608	4,037	1,805	4,608	2,803
Parks, Recreation & Culture	42,512	50,908	8,396	63,034	71,141	8,107
Surrey Public Library	13,031	14,186	1,155	19,264	19,373	109
Planning & Development	(4,529)	5,978	10,507	(794)	8,707	9,501
Mayor & Council	1,057	1,290	233	1,448	1,766	318
City Grants	1,646	1,646	-	1,839	1,839	-
City Manager	764	1,136	372	1,055	1,550	495
Invest. & Intergovernmental Relations	814	1,211	397	1,357	1,651	294
Finance	5,865	7,539	1,675	9,157	10,675	1,518
Corporate Services	27,755	27,958	203	39,094	38,159	(935)
<b>NET PROGRAM TOTAL</b>	<b>256,270</b>	<b>291,277</b>	<b>35,007</b>	<b>385,807</b>	<b>409,292</b>	<b>23,485</b>



## CORPORATE REPORT

NO: R188

COUNCIL DATE: Sept. 27, 2021

## REGULAR COUNCIL

TO: Mayor & Council DATE: September 23, 2021

FROM: General Manager, Finance FILE: 0360-20-01  
General Manager, Policing Transition

SUBJECT: Financial Impact of RCMP Members Collective Agreement

## RECOMMENDATION

The Finance Department and the Policing Transition Department recommend that Council receive this report for information.

## INTENT

The purpose of this report is to provide an update to Council on the ratification of a collective agreement between the Royal Canadian Mounted Police ("RCMP") members and the Government of Canada, and the financial impact of the agreement on the City's budgets.

## BACKGROUND

For the first time in the history of the RCMP, its members, through the National Police Federation ("NPF") as their bargaining agents, have ratified a collective agreement with the Government of Canada. The timeline for the ratification of the agreement is shown below (Image 1).

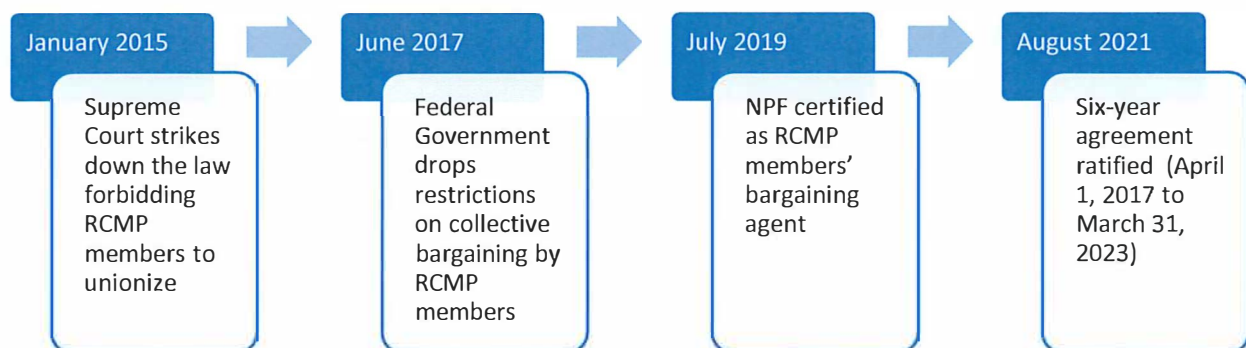


Image 1

In 2009, an Ontario Supreme Court judge gave RCMP members the right to form a union. In 2012, that decision was overturned on appeal. Finally in 2015, the Supreme Court of Canada ruled that RCMP members have a right to unionize and bargain collectively. Up until that time, RCMP members had been barred from forming a union and it was one of the only police forces in Canada with that restriction. In 2016, the Government of Canada introduced Bill C-7 to create a new labour relations regime for RCMP members and reservists. The bill was meant to provide a



process for collective bargaining rights for members and reservists and included provisions that regulate collective bargaining, arbitration, unfair labour practices and grievances. This bill received royal assent in 2017. In 2018, NPF filed an application for certification at the Federal Public Service Labour Relations and Employment Board and in 2019, RCMP members certified NPF as their new bargaining agent. Following more than two years of bargaining, RCMP members ratified the collective agreement in August 2021. This six-year agreement, ending on March 31, 2023, would apply to over 19,000 RCMP regular members below the rank of inspector as well as RCMP reservists.

Based on the information provided by RCMP E-Division, the City has been budgeting and keeping aside funds at a rate 2.5% per year as a retroactive pay increase, since 2017/2018 federal fiscal year. Table 1 shows the ratified pay raises under the agreement.

Year (Effective Date)	Economic Increase	Restructuring Increase	Total Increase	Compounded Increase
April 1, 2017	1.75%	1.50%	3.25%	3.28%
April 1, 2018	1.75%	1.50%	3.25%	6.66%
April 1, 2019	1.75%	2.50%	4.25%	11.24%
April 1, 2020	1.75%	1.75%	3.50%	15.17%
April 1, 2021	1.75%	1.50%	3.25%	18.94%
April 1, 2022	1.75%	2.27%	4.02%	23.77%

Table 1 Source: Treasury Board of Canada

## DISCUSSION

This agreement was signed between the Treasury Board of Canada and the NPF, acting as bargaining agents for the RCMP members. In British Columbia, municipalities with populations of 5,000 or more pay from 70 to 90 percent of the cost base described in the policing agreements. The federal government pays the remaining 10 to 30 percent. During the negotiations, which commenced in 2019, no local governments were at the bargaining table or consulted. Local governments represent a significant portion of the RCMP deployment, and these costs typically make up one of the largest single expenses on their budgets. Yet these local governments are obligated to pay for the resulting significant retroactive settlement as well as the impact of the overall increase on their future budgets. Due to a lack of consultation from the federal government, local governments were not able to appropriately plan for these impacts beyond the 2.5% set aside, as indicated by E-Division. Prior to this, the last pay raise for the members occurred in the 2016/2017 federal fiscal year.

This collective agreement includes a significant base salary increase for RCMP members. Since the salaries expenses also include other direct costs associated with base salaries, the overall impact of this increase will be significantly higher than just the difference in base salary increases set aside at 2.5% each year and the base salary increases ratified by the members. The impact of this agreement on member benefits is also not known at this time. To-date, the City has not received any direct communication regarding the total financial impact of the increase in retroactive payments to the City. Increases for anyone above the rank of Inspector are also not

known at this time. The total financial impact on the City will be based on the number and rank of members deployed by the RCMP detachment during each of the years after April 1, 2017.

Based on the information contained in the ratified agreement, the total per member retroactive payments, at City's share of 90% costs, between 2017/2018 fiscal year to 2021/2022 fiscal year (from April 1, 2017, to March 31, 2022) could amount to approximately \$42,800 per Constable to \$55,700 per Staff Sergeant. In comparison, the funding set aside by the City for retroactive payments at 2.5% each year equate to approximately \$30,000 per Constable to \$39,000 per Staff Sergeant within the same time period.

As discussed above, the City has not received any direct communication regarding the financial impact to the City for retroactive and ongoing pay raises due to the difference in the pay raises budgeted by the City as per direction from E-Division (at 2.5%) as compared to the pay raises ratified in the agreement. Staff have used certain assumptions to estimate the financial impact of the ratification of the agreement. Since the number and rank of members in each year of the RCMP contract are not known, the estimate shown in Table 2 is based on the budgeted member strength of 792 within the RCMP Contract in 2020. Although the negotiated agreement only applies to members below the rank of Inspector, our financial analysis in this report is predicated on the possibility of non-unionized staff receiving pay increases in line with unionized staff, as this is the most likely outcome and has generally been the practice historically.

Table 2 shows the financial implications on the City, using certain assumptions as discussed above:

Total Retroactive Payment from 2017 to 2021, based on the ratified agreement	\$ 46.62M
Funding set aside by the City for Retroactive Payments from 2017 to 2020	\$ (21.15M)
Amount included within the current Financial Plan for Retroactive Payment for 2021	\$ (9.28M)
<b>Funding Shortfall for Retroactive Payments (from 2017 to 2021)</b>	<b>\$ 16.19M</b>
Amount for 2022, based on the ratified agreement	\$ 20.04M
Amount included within the current Financial Plan for 2022	\$ (11.38M)
<b>Funding Shortfall for 2022 only</b>	<b>\$ 8.66M</b>
<b>Total Funding Shortfall, from 2017 to 2022</b>	<b>\$ 24.85M</b>

*Table 2 RCMP Contract Agreement Anticipated Funding Shortfall*

## FUNDING

Once E-Division provides further information on the financial impact of the ratified agreement on the City, staff will explore funding options to fund this unanticipated obligation, arising from the significant difference in what local governments were informed by E-Division in relation to expected pay increases and the final ratification of the contract.

At this point the required information is not available to determine the relative financial impact to 2021 vs 2022 and future years. It is further unknown when the retroactive payments will be

payable on a cash basis and if, local governments will be given multiple years to make this payment. The 2022 budget will incorporate related changes as a result of the ratification of the union agreement and will also take into consideration the ramping up of the Surrey Police Service and related corresponding demobilization of the RCMP.

## SUSTAINABILITY CONSIDERATIONS

This information update supports the objectives of the City's Sustainability Charter 2.0. In particular, this report relates to the Sustainability Charter 2.0 theme of Public Safety. Specifically, it supports the following Desired Outcomes ("DO"):

- Community Safety and Emergency Services DO1: Residents are safe and have a strong sense of security in all neighbourhoods and throughout the City; and
- Community Safety and Emergency Services DO5: Surrey is recognized and perceived as a leader in establishing and maintaining collaborative partnerships for community safety and well-being.

## CONCLUSION

The ratification of the RCMP members' collective agreement will have significant financial implications on the City's 2021 budget and will continue to have an impact on the on-going RCMP Contract budget. Provisions that have been made for pay raises and any associated benefit increases or any other considerations will have a direct impact on the current and future year budgets. Obtaining details regarding specific implications of the ratified agreement to the City will assist the City with its short-term and long-term financial planning.



Kam Grewal  
General Manager, Finance

Terry Waterhouse  
General Manager, Policing Transition