STAFF REPORT

TO: Committee of the Whole  MEETING: June 9, 2020
FROM: Manvir Manhas  FILE: 1870-01
Manager, Capital Accounting & Financial Reporting


RECOMMENDATION
That the Financial Report for the period January 1, 2020 to March 31, 2020 be received for information.

SUMMARY
Total operating revenues are at 22% of the budget, with Building Inspection operating revenues at 34% of the budget. Total operating expenditures are at 17% benchmark. The majority of variances at the end of first quarter are due to timing differences in recording revenues and expenses. Capital spending is at 3% of the budget due to the timing of capital projects and the drawdown accounting approach where transfers from reserves and Development Cost Charge revenues are recorded only when project expenses are incurred. We will start to see the impacts of the COVID-19 pandemic on various service areas such as recreation, transit and solid waste in the next quarter due to shutting down of facilities or reduced service levels. Measures are being put into place across all RDN services to help offset the impacts of the pandemic.

BACKGROUND
The Regional Board is provided with quarterly financial progress statements in order to review budget trends. Other than taxation revenue, which is accrued evenly through the year and shows at 25% of budget, revenues and expenses are incurred as projects are completed. Variances are explained below at an organizational level and specific service variations are explained in Attachment 1.

Economic Overview
Canada
Canada’s economy faces two significant and related shocks. First, the COVID-19 pandemic is having a dramatic effect on economic activity and employment. As in other countries, a significant amount of economic activity in Canada has been shut down, causing sudden and sharp drops in both supply and demand, as well as income for households and firms. In addition, severely depressed foreign activity is pulling down Canadian exports and investment, as well as terms of trade, through lower commodity prices. Second, layered on top of the direct impacts of the COVID-19 pandemic, is the plunge in global oil prices which weighs heavily on
the Canadian economy. The combined effects have led to businesses reducing hours and laying off workers at an unprecedented rate and cutting investment. In March, more than one million jobs were lost across Canada and by early April more than six million Canadians had applied for the Canada Emergency Response Benefit.

The outlook is too uncertain for the Bank of Canada to provide a complete forecast, but scenarios suggest that the level of real activity was down 1-3% in the first quarter of 2020, and will be 15-30% lower in the second quarter as compared to the fourth quarter of 2019. CPI inflation is expected to be close to 0% in the second quarter of 2020, primarily reflecting the sharp drop in gas prices and, to a lesser extent, travel and entertainment services. The impact on inflation will be partially mitigated by the decrease in the Canadian dollar, which can be expected to result in higher import prices.

Before COVID-19 struck Canada, the economy had been operating close to potential for nearly two years and inflation was at the Bank of Canada’s target of 2%. The labour market was healthy: unemployment was low, and the pace of wage increases was picking up. Some energy regions faced challenges and household debt was elevated, but economic activity overall was solid. That underlying resilience will help to support the Canadian economy through the pandemic containment period and subsequent recovery. Bank of Canada stress tests indicate that Canada’s large lenders are well positioned to weather a severe financial and economic downturn. Federal and provincial governments have implemented a complementary set of fiscal, monetary, and financial policy measures that are designed to help offset lost income, boost access to credit, and lower debt-service costs. The Bank of Canada has lowered its overnight rate to 0.25% which the Bank considers its effective lower bound, to ease market dysfunction and keep credit channels open. Considerable uncertainty surrounds the timing and manner of the recovery, which will depend heavily on the pandemic and how efforts to control it unfold, as well as on developments in global oil markets.

**British Columbia (Content provided by TD Economics)**

- After downshifting to a still-decent estimated rate of 1.7% in 2019, real GDP growth in B.C. is poised to virtually stagnate in the year ahead as momentum is sapped by COVID-19 related impacts and a sharp slowdown in growth in key Asian trading partners. With these downside growth pressures likely to wane later this year, B.C.’s economy looks set to vault back to the top of the provincial podium in 2021.

- B.C.’s reliance on tourism and its strong business linkages with the Asia region - two areas that have been especially hard-hit by COVID-19 - leave the provincial economy vulnerable in the near term. The share of GDP attributable to the tourism sector in B.C. is the highest among the provinces apart from PEI. B.C.’s exports are also highly geared towards commodities, the prices for which have tumbled in the wake of the pandemic.

- The hit to activity from the pandemic comes at a time when B.C.’s labour markets had been showing signs of slackening. Since mid-2019, net job creation has tailed off amid a downturn in the forestry sector and a mounting drag on hiring exerted by shortages of skilled labour. This latter challenge is punctuated by high job vacancy rates and rapid wage growth. COVID-19 will act as a temporary hurdle to any meaningful job gains.

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1 Bank of Canada Monetary Policy Report, April 2020
2 TD Economics Provincial Economic Forecast (March 18, 2020)
Beyond the next few months, we remain constructive on B.C.’s outlook. As COVID-19 impacts dissipate, spending and export activity should post a solid recovery in the year’s second half. Likewise, near-term weakness in housing markets on the back of increased social distancing and recent stress in financial markets should give way to a strong rebound in resale activity by mid-year.

One area that is expected to hold firm this year is non-residential construction. A recent survey by Statistics Canada revealed a robust +7.8% increase in public/private capital spending intentions, ranking first among the provinces. The LNG Canada project and the Trans Mountain pipeline are two examples of large-scale projects currently in the works.

In that vein, B.C.’s recent government budget showcased a 10%+ jump in total capital spending this year. This will be led by ongoing transportation and education projects such as the Pattullo Bridge replacement. B.C.’s fiscal position continues to be one of the healthiest provincially, providing it with ample room to respond if the upcoming period proves more turbulent than expected.

**Regional District of Nanaimo**

The impacts of COVID-19 have been realized in the housing market with a sharp decline in the number of sales as households and the real estate sector adhere to social distancing. However, this has not translated into a comparable decline in housing prices. Average single-family dwelling prices for April 2020 increased marginally by 1% in Nanaimo ($593,503 vs $586,508), and 5% in Parksville/Qualicum ($696,041 vs $662,136) over April 2019, with the number of sales down significantly by -47% in Nanaimo and -69% in Parksville/Qualicum. The BC Real Estate Association predicts the pandemic impacts to be profound, but the duration may be shorter than past downturns as low interest rates and pent-up demand may translate into a faster recovery. The RDN issued 203 building permits in the first quarter vs. 181 in 2019. The building activity remains strong in the RDN at the end of first quarter; however, it is anticipated that the COVID-19 pandemic will have an impact on construction activity across the region.

As of March 2020, the unemployment rate for Vancouver Island/Coast has increased to 6.3% (up from 3.6% in March 2019), as compared to the 5.9% BC provincial rate (up from 4.8% in March 2019), which was the second lowest provincial rate in Canada (after Manitoba at 5.7%).

BC Ferries March 2020 Year-to-Date Vehicle and Passenger traffic decreased across the board: at Departure Bay by -2.08% and -3.60% respectively, and at Duke Point by -2.27% and -4.35% from March 2019.

There are a number of factors that will impact the Canadian, BC and Vancouver Island economies in 2020 and forward including interest rate changes, the Canadian dollar fluctuations, climate change, trade agreement battles and global politics. However, the impacts of the COVID-19 pandemic, combined with the significant drop in oil prices, create an unprecedented level of uncertainty in how the subsequent recovery will unfold. Additional issues such as the stressed global financial system, access to capital, liquidity and the functioning of borrowing and investment markets, decreased commodity prices, and additional debt burdens

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3 Vancouver Island Real Estate Board Single Family Home Average Sales Price, Apr 2020
5 BC Ferries, Traffic Statistics System Total Vehicle and Passenger Counts by Route for March 2020
on governments, businesses and households are other factors that will likely directly or indirectly affect our region.

**Overall Summary by Division (Attachment 2)**

The Overall Summary by Division provides an overview of the year-to-date results at a divisional level.

**Capital Accounts**

Overall capital spending is at 3% of budget due to the timing of capital projects. The timing of capital projects also impacts professional fees (7%). Capital projects use a drawdown accounting approach where grant revenues and transfers from reserves and Development Cost Charge revenues are recorded when project expenses are incurred which in turn impacts transfers from reserves (2%), capital grant revenues (2%), and new borrowing (5%). Major capital works underway or beginning in 2020 are the secondary treatment project at the Greater Nanaimo Pollution Control Centre, Nanoose Bulk Water Joint Venture project, design work for the French Creek Pollution Control Centre, Chase River Pump Station and Force Main upgrades, Bay Avenue Pump Station Upgrades, Departure Bay Force Main replacement, Gabriola Village Trail construction, Huxley Park Phase II development, Meadowood Community Recreation Centre construction and the design work for Dashwood Volunteer Fire Hall replacement.

**Operating Accounts**

Total operating revenues are at 22% of the budget, with Building Inspection operating revenues at 34% of the budget. Regional & Community Utilities revenues (17%) will increase after the first utility services billing which occurs at the end of May.

Operating expenditure accounts are at 17% or more of budget other than professional fees (7%) (impacted by capital as noted above) and program costs (6%). Program costs are lower due to closure of recreation facilities in March. Program costs also reflect the Drinking Water/Watershed Protection rebate programs in Regional & Community Utilities (2%) and the Green Buildings rebate programs in Strategic & Community Development (1%) which are currently underway and will be fully allocated later in the year.

Expenditures for Debt Interest (19%) and Debt Principal (11%) are lower than budget because of the timing of debt payments made on behalf of municipalities and the Vancouver Island Regional Library.

Transfers to Reserve (0%) approved in the annual budget are completed and recorded in August when tax revenues are received from the Province and the municipalities.

Total operating expenditures are $23 million or 17% of budget, which reflect the items discussed above and those in Attachment 1.

**Summary of Operating Results by Department (Attachment 3)**

The Summary of Operating Results by Department lists the total year-to-date revenues and expenditures for services within each organizational division at March 31. The majority of the variances at the end of first quarter are due to the timing of capital and operating projects and the related revenue accruals.
**Contract Awards**

During the first quarter, the following contracts (greater than $100,000) were awarded by the Regional District of Nanaimo totaling over $1,435,051.

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<tr>
<th>Date</th>
<th>Description</th>
<th>Awarded Vendor</th>
<th>Awarded Amount (excluding taxes)</th>
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<tr>
<td>January 2020</td>
<td>Office Supplies</td>
<td>Madill</td>
<td>$222,000</td>
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<tr>
<td>January 2020</td>
<td>Wastewater Engineering Standing Offers</td>
<td>Eight (8) Firms</td>
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<td>March 2020</td>
<td>Supply &amp; Delivery of Polymer for GNPCC</td>
<td>Waterhouse Environmental Services</td>
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<td>March 2020</td>
<td>Health Network Coordinator</td>
<td>Jane Vinet</td>
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<td>March 2020</td>
<td>Nanoose Bay Water Service SCADA Engineering Services</td>
<td>MPE Engineering</td>
<td>$209,956</td>
</tr>
</tbody>
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**ALTERNATIVES**

1. That the Financial Report for the period January 1, 2020 to March 31, 2020 be received for information.

2. Provide alternate direction to staff.

**FINANCIAL IMPLICATIONS**

There are no significant variances impacting the overall budget for the period ending March 31, 2020. We will start to see the impacts of the COVID-19 pandemic on various service areas such as recreation, transit and solid waste in the next quarter resulting in decreased revenues due to shutting down of facilities or reduced service levels. Measures are being put into place across all RDN services to help offset the impacts of the pandemic.

**STRATEGIC PLAN IMPLICATIONS**

Quarterly financial progress statements provide information to identify budget trends and to allow for improved financial planning. This directly supports the Board governing principles to “Be Transparent and Accountable” and to “Show Fiscal Restraint” through prudent use of tax dollars and to deliver the services expected by residents of the Region as cost effectively and economically as possible.
Manvir Manhas
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May 19, 2020

Reviewed by:
- J. Bradburne, Director of Finance
- D. Wells, General Manager, Corporate Services
- P. Carlyle, Chief Administrative Officer

Attachments:
1. List of variances for March 31, 2020 quarterly reporting
2. Overall Summary by Division March 31, 2020
3. Summary of Operating Results by Service March 31, 2020