Agenda – Executive Policy Committee – May 18, 2022

AUDIT COMMITTEE

Item No. 2 Annual Audited Consolidated Financial Statements of The City of Winnipeg for the year ended December 31, 2021

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2021 and direct the Chief Financial Officer to submit these prior to June 30, 2021 to Council with the City's Annual Report for information.

2. That the Audit Committee receives as information the attached Audit Findings Report prepared by KPMG LLP.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: Annual Audited Consolidated Financial Statements of The City of Winnipeg for the year ended December 31, 2021

Critical Path: Audit Committee

AUTHORIZATION

Author	Department Head	CFO	CAO
P. Olafson	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The City's 2021 audited consolidated financial statements reflect the financial position and the results of operations of The City of Winnipeg, which includes organizations controlled by the City. They report on Council's fiscally prudent and responsible plans to invest in key infrastructure including roads while presented with significant financial challenges associated with the COVID-19 pandemic.

The audited consolidated financial statements attached to this report are prepared in accordance with Canadian public sector accounting standards. As such, these audited consolidated financial statements include all activities under the control of the City of Winnipeg (eg. Water and Waste utilities, Capital, Transit, Special Operating Agencies, etc.). Further, they are prepared on a full accrual basis meaning unfunded liabilities, as well as amortization of tangible capital assets, are accounted.

The audited consolidated financial statements attached (Appendix 1) report a deficit (expenses greater than revenue) of $78 million before capital-related revenues. The continued financial impacts of the COVID-19 pandemic to the City are apparent. With residents working from home, businesses and public facilities closing temporarily to the public and other implications of public health order restrictions, significant revenue losses are noted resulting from reduced transit ridership, recreational programming and parking.

Investments in capital assets totaled $423 million in 2021. Construction resulted in $154 million in roads as well as $89 million in underground and other networks being completed and put into service during the year.

The City's net financial liabilities have increased from $851 million to $880 million. Net financial liabilities are an indicator of how much a government will be relying on future revenues to fund current services and infrastructure. The City's credit ratings affirm solid fiscal performance (Standard and Poor's as AA; Moody's Investors Services as Aa2). In its credit rating reports issued in June 2021 affirming the City's Aa2 credit rating, Moody's Investors Services cited the City's Economic diversity providing a buffer against coronavirus-related pressures and strong debt affordability as well as strong governance and management structure.

RECOMMENDATIONS

1. That the Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2021 and direct the Chief Financial Officer to submit these prior to June 30, 2021 to Council with the City's Annual Report for information.

2. That the Audit Committee receives as information the attached Audit Findings Report prepared by KPMG LLP.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Section 100(i) of *The City of Winnipeg Charter* requires the Chief Financial Officer to submit to Council, within six months of the fiscal year-end of the City, a report on the financial position of the City for the end of its fiscal year. Further, under section 100(j), the Chief Financial Officer will submit that report to the Province of Manitoba, also within six months of the fiscal year-end.

IMPLICATIONS OF THE RECOMMENDATIONS

The City will meet the requirements of *The City of Winnipeg Charter.*

HISTORY/DISCUSSION

The City of Winnipeg annually prepares consolidated financial statements, including notes and schedules thereto. These are prepared in accordance with Canadian public sector accounting standards recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. KPMG LLP, the City's external auditor, will be issuing an unqualified audit opinion on the consolidated financial statements.

The City's 2021 audited consolidated financial statements reflect the financial position and the results of operations of The City of Winnipeg, which includes organizations controlled by the City. They report on Council's key priorities in the 2021 Budget:

- Providing a safe restart for the community.
- Revitalizing the economy as a result of the COVID-19 pandemic.
- Maintaining a robust capital program.
- Providing affordable services and keeping disciplined expenditure control.
- Supporting strategic investments in recreation, libraries, roads, transit, water and waste and other service areas.

This past year, investments in capital assets totaled $423 million. Construction resulted in $154 million in roads as well as $89 million in underground and other networks being completed and put into service during the year.

The City's consolidated revenues (excluding other capital-related revenues) totaled $1.676 billion (increase of $1 million [flat] from 2020) while consolidated expenses totaled $1.754 billion (increase of $27 million [2%] from 2020). Overall, the financial statements report a deficit (expense greater than revenues) of $78 million before other capital-related revenues.

At the Standing Policy Committee on Finance meeting of February 14, 2022, it was reported the General Revenue Fund incurred a deficit of $22.3 million at December 31, 2021. The consolidated financial statements attached to this report include the General Revenue Fund but are also prepared in accordance with Canadian public sector accounting standards. As such, these consolidated financial statements include all activities under the control of the City of Winnipeg (e.g. Water and Waste utilities, Capital, Transit, Special Operating Agencies, etc.). Further, they are prepared on a full accrual basis meaning unfunded liabilities as well as amortization of tangible capital assets are accounted.

The overall annual surplus of $102 million is attributable to revenue from government transfers and tangible capital asset and other capital contributions. This revenue does not produce cash resources for the City's general operations. It represents amounts received and invested in the City's tangible capital assets.

COVID-19 Pandemic

The COVID-19 pandemic continues to take a toll on many aspects of our lives. While the 2021 Budget provided for keeping people safe, easing economic, social and emotional burdens and restarting our economy, the City's 2021 financial results indicate ongoing stress from COVID-19. The financial impact of this event to the City are apparent in the 2021 audited consolidated financial statements. With residents working from home, businesses and public facilities closing temporarily to the public and other implications of public health order restrictions, significant revenue losses are noted resulting from reduced transit ridership, recreational programming and parking compared to pre-pandemic times.

Revenues

Taxation revenues increased by $21 million from 2020, primarily due to assessment roll growth and a 2.33% property tax increase which comprises:

- 1% tax increase for the renewal of regional streets and sidewalks, and bridges (Regional Street Renewal Program),
- 1% for the renewal of local streets, lanes and sidewalks (Local Street Renewal Program), and
- .33% for payments for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass).

Sales of services and regulatory fees increased $49 million from 2020 and were $24 million greater than budget due largely to higher water and sewer revenues resulting from increased rates and consumption, as well as higher revenues in solid waste because of favourable market conditions for recyclables. These increases were somewhat offset by lower transit fare revenues due to the continued impact of COVID-19 on ridership. As well, rebounds in demand for various other services (e.g. building permits) resulted in increased revenues over 2020.

Government transfers (operating) have decreased $68 million over 2020. The decrease is primarily a result of funding received from the Government of Canada relating to the Federal Safe Restart agreement received in 2020, offset by an increase in funds received from the Government of Canada related to the Rapid Housing Initiative.

Government transfers (capital) have decreased by $29 million from 2020 due primarily to lower revenue recognized from the Government of Canada relating to the Canada Community Building Fund in 2021. Government transfers (capital) requires capital spending to occur in order to recognize the revenue.

Developer contributions-in-kind related to capital were $39 million higher than in 2020. Contributed tangible capital assets in 2020 were lower than the historical average, with 2021 resuming at a typical level.

Expenses

Both protection and community services expenses ($29 million) and utility operations expenses ($16 million) have increased over 2020. These increases are largely attributed to higher salary and benefit expenses and diesel fuel. Still, utility operations expenses are $17 million underbudget, primarily because of reduced Transit Plus demand and position vacancies.

Property and development expenses decreased by $26 million over 2020. This decrease is due to the impact fee refunds occurring in 2020 which amounted to $37 million. These were offset somewhat by Rapid Housing Initiative grants made in 2021.

Budget

Included in the Council-approved 2021 Budget is the 2021 consolidated budget, the source of budget information disclosed in these financial statements. This disclosure is required by the aforementioned Canadian public accounting standards and is another source of transparency and accountability for governments. For 2021, the consolidated operating deficit was $4 million less compared to the 2021 consolidated budget.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 14, 2022

Project Name:

Annual Consolidated Financial Statements of the City of Winnipeg, for the year ended December 31, 2021.

COMMENTS:

This report is for information purposes.

"Original signed by:
Melissa Wensel, CPA, CA
Manager of Financial Reporting and Accounting Services

CONSULTATION

This Report has been prepared in consultation with:

- All City of Winnipeg Departments and Agencies (in preparing the consolidated financial statements)

OURWINNIPEG POLICY ALIGNMENT

N/A

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Poverty Reduction Strategy (PRS) and its Goals and Objectives, and it was determined that the PRS is not applicable to this specific report.

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Melissa Wensel
Date: April 14, 2022
File No: 2021 Year End

Attachments: