

# Staff Report



---

To	<b>Committee of the Whole</b>
Service Area	Corporate Services
Date	Tuesday, June 5, 2018
Subject	<b>2018 First Quarter Operating Variance Report</b>
Report Number	CS-2018-19

---

## Recommendation

That report CS-2018-19 titled 2018 First Quarter Operating Variance Report, dated June 5, 2018, be received.

## Executive Summary

### Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2018 year-end position based on actual financial information as of March 31, 2018, which is the end of the first quarter (Q1) for the Tax Supported and Non-tax Supported programs.

The report focuses on bringing challenges to the attention of Council and to reinforce that staff are addressing these issues. Further clarity will be brought forward to Council through the second quarter (Q2) 2018 Operating Variance Report as more information and financial activity is available.

### Key Findings

Due to limited data, and an early reporting date of March 31, 2018, the City is projecting to be within the Council approved Tax and Non-tax Supported Budgets at year-end. The Q1 variance report relies on estimates, historical knowledge, current market conditions and judgement. The variance projections will become more accurate as the year continues.

Staff have identified some areas of risk, as well as some positive trends. It should be noted that it is difficult to quantify potential full year outcomes this early in the fiscal year.

Some areas of concern identified include:

Environmental Services – There is risk of a negative variance due to increased haulage costs, contractual obligations and transition costs, decreased commodity prices and changes in recyclables market.

Transit – There is a risk of an unfavourable variance at year-end due to Q1 revenue trending lower than budget and overtime costs were higher as a result of staff vacancies.

Gasoline and diesel prices have been trending close to the budgeted rates. Gas and diesel prices are expected to continue rising over the summer, and there is a risk of an unfavourable variance if the cost of fuel rises above the budgeted rate.

Harsh winter weather in Q1 resulted in more winter control events than planned and resulting in a potential risk of an unfavourable variance at year-end on road salt. The City has a reserve dedicated to managing this weather dependant variable.

Some positive trends have also been identified including utility expenditures and investment income. Further, the City's supplementary tax revenue and other general expenditures are also tracking favourably.

### **Financial Implications**

There are no direct financial implications resulting from this report.

The year-end operating position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price in which the City can issue debt and therefore impacts the affordability of long-term capital projects for the City tax and rate payers.

## **Report**

City departments were provided financial information as of March 31, 2018. Actual expenditures and revenues were analyzed and related commentary on potential significant deviations from budget that are expected to have an impact on the year-end financial position were identified with Finance staff support. Departments have identified some positive trends, challenges, risks and concerns based on all known and available information at the time of this report.

As with any forecast, variance projections will become more accurate as the year unfolds. Due to the limited data available early in the year, the Q1 Operating Variance Report is highly speculative, relies on estimates, historical knowledge, current market conditions, and judgement.

## **Corporate Variance Drivers**

The challenges identified below are not currently quantifiable, and due to seasonality, timing and unknown market forces or events beyond the control of the City; certain expenses and revenues may not be realized until the later part of the year.

### 1. Fuel Costs

In the first quarter, the average regular diesel cost per litre to the Corporation has been \$1.037/litre compared to the budgeted \$1.05/litre. Fuel costs are projected to continue increasing in the coming months. If fuel costs increase as projected by the energy analysts, costs are likely to be higher than projected resulting in a negative variance at year-end. Transit and Operations, as the largest fuel consumers, will be the most impacted by higher fuel costs.

### 2. Utility Costs

Overall year-to-date Q1 energy and water expenditures are trending approximately 12 per cent below budget. This is based on historical consumption and expenditure trends. Staff will continue to monitor the energy market, Provincial strategies and programs, and will refine expenditure projections in Q2.

### 3. Benefit Costs

The City received notification from one of its current benefits providers that long-term disability and life insurance costs will be increasing approximately 55 per cent beginning July 1, 2018. Staff are preparing a Request for Proposal as a mitigation strategy to address this cost escalation. Any deficit at year-end would be funded from the Compensation Contingency Reserve if required.

### 4. General Revenues

Investment revenues are trending favourably and are expected to continue throughout the remainder of the year. At year-end, a portion of investment revenue is allocated to the City Reserve Funds. Additionally, certain general expenditures and supplementary tax revenues are currently trending favourably compared to budget.

## **Departmental Risks**

The following areas have identified concerns that may result in a variance at year-end. Staff are aware of the financial pressures and mitigation measures are in place.

## **Infrastructure, Development and Enterprise Services**

### **Environmental Services**

There is risk of a negative variance at year-end for Solid Waste Resources due to:

- Contracted waste haulage – risk of a negative year-end variance because more tonnage is being processed than budgeted and the 2018 budgeted haulage cost per tonne is lower than the contracted rate per tonne. No adjustment for these costs were made through the 2018 budget because the service review was on-going and as reported to Council, all budget adjustments were deferred until the 2019 operating budget.
- Sale of recyclables – recyclable commodity prices have decreased in Q1 and changes by other countries on the quality of materials purchased is impacting

the sale of products. Staff will investigate the creation of a Commodity Market Reserve to mitigate the City's exposure to market risk.

- Third party contracts - the City will be transitioning to processing only the City's materials at the Material Recovery Facility (MRF), which will allow staff to focus on improving recyclable capture rates, overall diversion rates, and implement efficiency measures to reduce processing costs. Until the transition is complete, the City will still incur losses from processing third party materials which will drive a negative variance through 2018.

Staff will continue to monitor and implement mitigation measures related to these on-going risks. As reported through the 2018 budget process, specifically for Solid Waste Resources, it is expected that a transfer from the Operating Contingency Reserve may be required in 2018 to offset the negative variance.

### **Stormwater Services**

In July 2017, Council received report IDE-2017-87 titled Stormwater Service Fee – Credit Program Feasibility and approved a stormwater credit program with the objective of financially rewarding customers who reduce stormwater runoff quantity or improve the runoff quality that is discharged from their property. On-site management of stormwater can reduce the long-term costs of the City's Stormwater Services program. No applications were received in Q1 for this rebate program. Advertising and communications has been increased in Q2 with the expectation of improving uptake through the remainder of the year.

### **Public Services**

#### **Operations**

The City has experienced more winter control events than budgeted since the beginning of the winter season with above average precipitation including snow, freezing rain and the ice storm in April. Also at the beginning of May, the City experienced a substantial wind storm that caused damage to facilities, traffic infrastructure, and the tree canopy resulting in significant overtime incurred for Operations, Emergency Services, and Parks and Forestry staff. At the time of writing this report, the full cost of the ice and wind storm events are unknown. The increased winter control events have led to the use of a considerable amount of road salt, resulting in budget overage. There is risk that winter control and road salt in particular will experience a negative variance at year-end depending on winter conditions in the fourth quarter of 2018. In accordance with the General Reserve and Reserve Fund Policy, surplus/deficits in winter control are transferred to/from the Environment and Utility Contingency Reserve.

#### **Transit**

Transit continues to experience staff vacancies leading to increased overtime mainly due to driver shortages in order to maintain Council approved service levels. Transit has successfully recruited and trained drivers in April and May and should see overtime costs decrease over the remaining months.

## Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by the operating departments and the Finance department. Department managers were provided financial reports based on their actual revenue and expenditures to March 31, 2018 with which they provided commentary in consultation with the Finance department.

## Corporate Administrative Plan

Budget monitoring and variance reporting are aligned with the City's strategic objectives. Providing Committee and Council with quarterly variance reports specifically aids the achievement of the following Corporate Administrative Plan directions:

### Overarching Goals

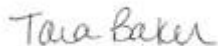
Financial Stability  
Service Excellence

### Service Area Operational Work Plans

Our Services - Municipal services that make lives better  
Our Resources - A solid foundation for a growing city

## Report Author

Ron Maeresera, Sr. Corporate Analyst of Budgets



---

### Approved By

Tara Baker, CPA, CA  
GM Finance & City Treasurer  
Corporate Services  
519-822-1260 ext. 2084  
[tara.baker@guelph.ca](mailto:tara.baker@guelph.ca)



---

### Recommended By

Trevor Lee  
Deputy CAO  
Corporate Services  
519-822-1260 ext. 2281  
[trevor.lee@guelph.ca](mailto:trevor.lee@guelph.ca)