

Information Report



Service Area	Corporate Services
Date	Friday, May 20, 2022
Subject	First Quarter 2022 Budget Monitoring Report

Executive Summary

Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2022 year-end position. This report will include the first quarter actual financial information for both the operating and capital budget for each of the strategic plan priority areas, as of March 31, 2022.

Key Findings

As the City enters a third year of operating under the unpredictable conditions of the COVID-19 (COVID) global pandemic financial challenges still exist. Ontario was operating under restricted Public Health measures in the first four to six weeks of 2022. Inflationary pressures due to increased demand for goods, and restricted supply are impacting the costs of service delivery. World events, like the war in Ukraine and lockdown in China, are further exacerbating the supply chain challenges. For this reason, there remains risk with the City's financial position in 2022 as other levels of government have yet to announce any new support programs. The financial position will be monitored, and service adjustments or other budget mitigation measures may have to be implemented as the year progresses.

Overall, from an operating perspective, the City is currently managing within budget, however, staff caution this may not be indicative for the balance of the year. Operating budget pressures are primarily being experienced in Parking, Culture and Recreation, Courts, Guelph Transit, Operations and Guelph-Wellington Paramedics. Staff continue to work within Public Health guidelines and adjust service to adhere to the ever-changing situation.

Since the beginning of the pandemic in 2020, the City has been allotted Safe Restart Operating and Transit Stream grant funding totaling \$23.2 million, of which \$5.9 million was used to offset deficits in 2020 and \$16.0 million in 2021. This leaves \$477 thousand of the Operating Stream funding and \$842 thousand of Transit Stream funding available for 2022. As of this quarter, the operating stream funding is fully committed and used for enhanced cleaning, safety barriers and supplies including hiring temporary security to check COVID passports to enter City facilities.

From a capital perspective as outlined in Attachment-1, the City spent and committed a total of \$109.1 million or 19 per cent of its total approved capital

budget of \$575.3 million for the first quarter, a significant increase over last year at this time by \$48.9 million or a substantial 81.4 per cent.

As outlined in Attachment-2, there are no capital projects that had additional approved budget to report on for this quarter. There was a small number of projects that required funding reallocations of less than \$100,000 each, which collectively totaled \$346,200. There was a single project that received a reallocation of \$210,000 to complete work this year that was originally scheduled for next year. And finally, there was a single project that required a reallocation of \$565,000 to cover the costs associated with Active Transportation.

Financial Implications

Inflationary pressure has emerged as a key risk for both operating and capital budgets and the Bank of Canada has identified that inflation is expected to be persistent over the short term. It is expected to continue to be a concern until such time as global economic and national fiscal policies have their intended effect. Staff have taken a proactive approach to moving the capital program forward in this environment through the Council approved report [2022-118 Inflationary Financial Impact Strategy](#). This authority did not come into effect until April 25, 2022, and therefore, the first reporting to Council will occur through the second quarter budget monitoring report.

Inflationary challenges, changing COVID restrictions, and limited information early in the year, have an impact on staff's ability to project a full year-end operating position. Staff will continue to focus on expense management to ensure the City remains in a stable financial position.

Notwithstanding the ongoing issues already identified in the key findings of this report, the more recent Carpenters strike news; where more than 15,000 workers walked off the job effective May 9, 2022, has a strong likelihood to further intensify the labour shortage risks already present in the construction markets today. The commercial and industrial building sectors, as well as transit projects, have been identified as the areas of concern¹. The financial implications, and the trickledown fallouts resulting from this labour disruption on the City's capital program, will become better known as time unfolds and more news becomes available.

In the meantime, a systematic review process of the 2022-2023 and 10-year capital plan is currently underway, which when completed by the end of August, will provide better insight in helping to target projects impacted the most by inflationary pressures.

Report

City departments were provided financial information as of March 31, 2021. Actual expenditures, revenues and related commentary were analyzed and any significant budget deviations, challenges, and risks that are expected to have an impact on the year-end financial position were identified with Finance staff support. In addition, departments were asked to assess the impact of the inflationary pressures, and the pandemic on their operations and provide commentary. It is too early to quantify

¹ <https://www.cbc.ca/news/canada/ottawa/carpenters-walk-off-the-job-monday-1.6446146>

the full impact, as the pandemic phase is ending, and the inflationary phase is beginning. Staff are collectively monitoring and assessing the financial impact to the City and will continue to update Council as more information becomes available.

Budget Monitoring Highlights

Overall, from an operating perspective, the City is managing within budget as year-to-date (YTD) expenditures are trending 2.5 per cent below budget. Budget pressures are mainly being experienced in Parking, Culture and Recreation, Courts, Guelph Transit, Operations, and Guelph-Wellington Paramedics. Many services such as Guelph Transit, Operations, and Guelph-Wellington Paramedics are projecting increased COVID-related operating expenses due to enhanced cleaning, increased staffing costs, increased personal protection equipment costs and increased use of medical supplies. Staff continue to work within Public Health guidelines and adjust service as required.

From a capital perspective, as summarized in Attachment-1, total capital budget approved to date is \$575.3 million, which includes \$141.4 million approved in the 2022 capital budget, \$433.4 million carried over from 2021 and in-year additional approved amounts of \$0.5 million.

YTD capital spending is \$10.7 million, a decrease of \$0.4 million or 3.7 per cent below last year's Q1 summary report. However, YTD purchase order (PO) commitments are significantly higher, with open POs totaling \$98.4 million, a \$49.0 million or 100.6 per cent increase over last year. Collective spending and commitments total \$109.1 million, a \$48.9 million or 81.4 per cent increase over last year's reported figures.

The uncommitted approved budget is \$466.2 million, a \$28.3 million or 6.5 per cent increase over last year, mainly due to the available funding for 2022 being \$77.3 million or 15.5 per cent higher than the available funding reported for 2021.

There are no capital projects that had additional approved budget to report on for this quarter. There was a small number of projects that required funding reallocations of less than \$100 thousand each, which collectively totaled \$346.2 thousand. There was a single project that received a reallocation of \$210 thousand to complete work this year that was originally scheduled for next year. And finally, there was a single project that required a reallocation of \$565 thousand to cover the costs associated with Active Transportation.

For specifics on capital budget reallocations, refer to Attachment-2.

Capital project highlights and details are noted in each strategic plan priority section in the body of the report below.

Powering our future

The [Powering our future](#) priority includes Economic Development and Tourism, Culture, Smart Cities Office, and Strategy Innovation and Intergovernmental Services. From an operating budget perspective, the main pressures are being felt in Culture with lost revenue due to the closure and reduced capacity limits in Museum, River Run Centre, and the Sleeman Centre in the first quarter. The restrictions impacted revenues by approximately 10 to 15 per cent of total budget across the City's cultural facilities. March has seen activity increase, however,

hesitancy from the public to purchase tickets to large indoor gatherings is still a factor.

Capital spending and commitments under this priority total \$1.3 million representing 1.2 per cent of the collective YTD total spend and commitments reported for the period ending March 31, 2022 (\$109.1 million).

There are two projects currently in progress which include: SS0002 Hanlon Creek Business Park, reported on budget; and IT0061 Fibre Data Connection, with expenditures and commitments reported below what was expected for this time, due to COVID delays in construction.

Sustaining our future

The [Sustaining our future](#) priority includes Environmental Services (Solid Waste, Water, and Wastewater), Planning and Building, Stormwater, Parks Operations, and Energy Management.

At this point in time, Environmental Services has received carbon credit revenue of \$125 thousand which will be transferred to the 100RE Reserve Fund (355) in accordance with the reserve and reserve fund policy. Commodity prices continued to be higher in the first quarter resulting in higher than anticipated revenue from sale of recyclables. If favourable market conditions continue, a favourable variance of an estimated \$500 thousand is likely at year-end. Water and Wastewater Services revenue is trending to budget, however, inflationary pressures on the cost of chemicals are being experienced. Departments continue to monitor and manage expenses to mitigate any potential deficits at year-end.

Corporately, utility expenditures for water, hydro, and natural gas experienced a YTD favourable variance of \$340 thousand, as less hydro and water were used due to facility closures during the first quarter. Utilities are projected to be within budget, and in a possible surplus position, at year-end.

There are more than 200 capital projects in progress under this strategic pillar, with unspent balances totaling \$192.1 million.

The sum of the total expenditures and commitments is \$57.5 million representing 52.7 per cent of the collective YTD total expenditures and commitments for the period ending March 31, 2022.

Table 1 outlines the details of the many projects having active expenditures and commitments under this strategic pillar.

Table 1 – All values are in thousands of dollars

Program of Work	Number of Active Projects	2022 Expenditures and Commitments
Wastewater Services	62	\$25,197
Water Services	57	20,986
Solid Waste Services	28	6,308
Corporate Projects	26	1,978
Stormwater Management	21	1,710
Contaminated Sites	18	1,298
Total	212	\$57,477

The top five project expenditures during the reporting period occurred in the following projects: ST0009 Plant Energy Efficiency Management (\$9.9 million), WT0011 Paisley Pump Upgrades (\$5.6 million), PN0043 Metcalfe-Speedvale/Eramosa Phase 2 (\$4.8 million), WP0006 Public Drop Off Scales and Software Upgrade (\$3.7 million) and WT002 Water New Supply (\$2.8 million).

Contaminated Sites, Corporate Projects, Solid Waste Services, Stormwater Management, Wastewater Services and Water Services each had projects that were identified as completed during this quarter (29 projects in total), with a collective budget surplus totaling \$2.7 million. This surplus balance will be used to help address inflationary pressures on the balance of the City’s priority capital works.

Navigating our future

The [Navigating our future](#) priority includes Transportation Services, Parking Services, and Guelph Transit. From an operating perspective, both Parking Services and Guelph Transit are projecting budget shortfalls by year-end.

Parking Services YTD revenue is 10 per cent below budget due to lower permit sales, lower transient revenue, and limited capacity at events during the first two months of the year. If current trends continue, Parking will experience a negative variance at year-end. As part of the 2021 year-end report, utilizing Safe Restart grant funding to offset 2021 parking revenue deficits enabled funds to be available in the Parking Operating Contingency Reserve (106) that can be accessed if required for 2022.

Guelph Transit revenue is tracking 12 per cent lower compared to total revenue budget caused by reduced ridership due to COVID, lost revenue in advertising and late-night service cancellation.

Transit vehicle maintenance has a surplus anticipated due to the elimination of parts contract and some efficiencies due to repairs being done in-house.

There are more than 125 capital projects in progress with unspent balances totaling \$65 million under this strategic pillar.

The sum of the total expenditures and commitments is \$16.9 million representing 15.5 per cent of the YTD total expenditures and commitments for the period ending March 31, 2022.

The majority of the expenditures and commitments occurred in projects TC0058 Bus Replacement (\$5.5 million) which is considered complete and awaiting delivery of electric bus order; RB0010 Norfolk St Rail Bridge Rehabilitation (\$2.1 million) and TC0059 Transit Operations Facility (\$1.4 million).

There were 35 capital projects identified as completed with budget surplus totaling \$1.95 million. The majority of funding has been reallocated to address pressures in other projects.

Working together for our future

The [Working together for our future](#) priority includes many of the internal facing services like Finance, Corporate Fleet, Human Resources, Legal, Realty and Court Services, Information Technology, Corporate Communications, and the City Clerk's Office. It also includes Executive Team, City Council, and Internal Audit.

As experienced in the previous two years, Court Services is experiencing overall revenue loss due to suspension of timelines by Chief Justice for January and February, lower courtroom capacities, lower license plate sticker charges due to legislative changes, and lower red light camera revenues than budgeted. Court Services is currently experiencing a 9.26 per cent YTD decrease in 2022 forecasted charges filed over 2021 excluding red light camera infractions.

Legal and Realty may have a year-end unfavourable variance under excess liability insurance and associated third party legal costs due to higher than expected claims being received and settled in the first quarter. The legal and insurance contingency reserve (193), which is used to mitigate against the variable nature of these claims, had a balance of \$2.9 million as of December 31, 2021.

Corporately, fuel prices have been trending 25 per cent higher than budget due to inflation and global market volatility. If the current trend continues the City may realize a projected year-end fuel deficit of 25 to 40 per cent. The Environment and Utility Reserve (198) balance at December 31, 2021, was \$4.7 million and is available to mitigate against commodity price fluctuations. Further, a year-end deficit may be realized in Corporate Fleet auto parts due to inflationary pressures, extended life cycle replacement for Parks and Solid Waste vehicles which created higher maintenance costs.

Property, liability, and automobile insurance premiums have been trending higher due to hard market conditions. A hard market is a period when there is a high demand for insurance, but a lower supply of coverage available and is caused by several factors including severe weather events and catastrophes, a higher prevalence of insurance fraud, low investment returns, increased loss ratios and inflation.

Overall, for compensation, the City has experienced a savings in the first quarter, and currently trending at 2.5 per cent below budget. It is likely that compensation and benefits will continue to trend below budget due to staff vacancy and recruitment challenges. There is a risk of increased compensation costs towards the third quarter as the Provincial Government has committed to increase minimum wage rates to \$15.50 per hour. The change will have an impact on some of the City's hourly wage employees who are currently above the minimum wage due to compression. Paramedics and CUPE groups are in collective bargaining negotiations that may also have future budgetary impacts.

From a capital budget perspective, there are 39 capital projects in progress with unspent balances totaling \$7.4 million.

The sum of the total expenditures and commitments under this strategic priority was \$2.04 million representing 1.9 per cent of the YTD expenditures and commitments for the period ending March 31, 2022. The majority of the expenditures and commitments occurred in three projects: IT0083 IT Infrastructure Lifecycle (\$0.45 million), IT0070 Redundant Application Services (\$0.33 million), and IT0081 PC Replacement (\$0.31 million).

There were five capital projects identified as completed with budget surplus totaling \$0.24 million, with the assumption that the surplus funds will be returned to source reserve funds or used to mitigate inflationary pressures on the capital program. The main project was IT0070 Redundant Application Services (\$0.20 million surplus).

Building our future

The [Building our future](#) priority includes Recreation, Community Investment, Public Works and Bylaw, all of the Emergency Services including Fire, Paramedics and Police, Library Services, Corporate Facilities Maintenance, and Infrastructure Planning and Construction.

Recreation has experienced a revenue loss of 10 per cent of budget or \$520 thousand due to capacity restrictions and closure of facilities in the first quarter. The revenue shortfall is partially offset by expense savings due to lower staffing levels to reflect the services provided, and lower facility maintenance due to closed facilities.

Guelph-Wellington Paramedic Services is experiencing increased costs mainly for staffing due to higher absenteeism because of COVID, costs related to personal protective equipment, cleaning costs, and higher vehicle repairs due to aging ambulance vehicles.

Fire Services are experiencing increased overtime costs mainly for staffing due to higher absenteeism related to COVID. This variance should be offset within the Fire compensation budget. Vehicle repairs and maintenance expenditures are projected to be overspent by year-end due to high-cost apparatus repairs and cost escalation for parts.

Corporate Facilities Maintenance currently experiencing a YTD overspend for building repairs and maintenance due to cost escalation and market volatility. There has been a slight increase in failures, which is indicative of aging City infrastructure and equipment.

There are 167 capital projects in progress with unspent balances totaling \$198.4 million.

The sum of the total expenditures and commitments under this strategic priority is \$31.4 million representing 28.8 per cent of the YTD total expenditures and commitments for the period ending March 31, 2022.

This strategic priority has projects under three programs of works: corporate projects hold 31 projects, emergency services have 41 projects and open spaces, recreation, culture, and library have the remaining 94 projects. The majority of the expenditures and commitments occurred in six projects: SS0025 Baker Street Partnership Development 2018 (\$3.9 million), PS0033 Guelph Police Services Headquarters Renovations (\$3.4 million), LB0028 Main Branch New (\$3.1 million), PN2439 CMMS Implementation (\$2.3 million), FM0003 Drill Hall Assessment and Repair (\$2.2 million) and RF0080 Recreation Facilities Renewal (\$2.1 million).

There were 11 capital projects identified as complete without any significant surplus funding that remained under this strategic pillar.

Financial Implications

At this early stage in the year, and not knowing the potential impacts of the extended COVID impacts including inflation, it is difficult to forecast the year-end position for the operating budget. The City's contingency reserves are sufficient and can help mitigate pressures through the year. Staff continue to be committed to taking actions to mitigate losses to protect the City's long-term sustainability.

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 and rate payers.

Staff will continue to work diligently to identify grant funding opportunities, prioritize projects based on eligibility requirements and to prepare high quality applications in time to meet tight application deadlines. These grants help to offset taxation requirements that would otherwise be required.

Safe Restart Grants

Since the beginning of the pandemic in 2020, the City has been allotted Safe Restart Operating and Transit Stream grant funding totaling \$23.2 million of which \$5.9 million was used to offset deficits in 2020 and \$16.0 million in 2021. This leaves \$477 thousand of the Operating Stream funding and \$842 thousand in Transit Stream funding available for 2022. As of the first quarter, the operating stream funding is now fully committed and used for enhanced cleaning, safety barriers and supplies including hiring temporary security to check COVID passports at City facilities.

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 General Managers were provided financial reports based

on their actual revenue and expenditures to March 31, 2022, with which they provided commentary in consultation with the Finance department.

Project Managers are the owners of the capital accounts and have financial responsibility and accountability to manage the capital deliverables within the budget approved, within a reasonable time period, and achieve the Council expected outcomes of that capital project.

Department and Project Managers were provided capital budget monitoring reports based on actual expenditures and commitments to March 31, 2022, with which they provided a 'preliminary' progress status update (i.e., deferred, delayed, in-progress, complete, or to be closed), as well as a 'preliminary' financial projection status update (i.e., on budget, under budget, over budget or uncertain) for every project line.

Next steps will include the Financial Strategy and Finance Client Services teams conducting more in-depth consultations with department heads and Project Managers in the coming weeks to support the Council approved report [2022-118 Inflationary Financial Impact Strategy](#) to address inflationary challenges, so that capital projects can be prioritized and tracked accordingly.

Strategic Plan Alignment

Reporting quarterly on the financial status of the operating and capital budget supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

Attachments

Attachment-1- Q1 2022 Capital Spending

Attachment-2- Q1 2022 Capital Budget Adjustments

Departmental Approval

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Attachment-1: Q1 2022 Capital Spending (all values are in thousands of dollars)

Budget by Pillar	Powering our future	Sustaining our future	Navigating our future	Working together for our future	Building our future	Total Year to Date
2021 carry-over budget	2,957	176,986	47,619	3,573	202,219	433,354
2022 capital budget, approved	1,750	72,607	34,068	5,830	27,168	141,423
2022 additional approved funding	(116)	0	175	0	438	497
Available capital funding for 2022	4,591	249,593	81,862	9,403	229,825	575,274
2022 capital spending	359	4,535	1,805	356	3,647	10,702
Open purchase orders (PO)	964	52,942	15,065	1,687	27,730	98,388
Total spending and commitments	1,322	57,477	16,870	2,042	31,377	109,088
Projects Closed	0	0	0	0	0	0
Uncommitted approved budget	3,269	192,115	64,993	7,360	198,449	466,186

Note: May not add due to rounding.

Attachment-2: Q1 2022 Capital Budget Adjustments

Table 1 - Additional Approved Budget

ID	Capital Account	Entry Description	Budget Increase / (Decrease) \$
			Nil
Grand Total	n/a	n/a	Nil

*To be approved by Council as part of 2022 Year-end Budget Monitoring Report

Table 2 – Summary of reallocations under \$100,000

Description	Amount \$
Additional funding required for IT Infrastructure Lifestyle	100,000
Additional funding required for Mobility Van Expansion	20,000
Additional funding required for Waste/Wastewater Servicing Master Plan	100,000
Additional funding required for Pond Monitoring	100,000
Additional funding required for Traffic Management Initiatives	24,400
Additional funding required for Red Light Cameras	1,800
Grand Total	346,200

Table 3 - Reallocations greater or equal to \$100,000 and under \$500,000

ID	Transfer From	Transfer To	Entry Description	Amount \$
BR-22CAP-01	WT0065 Verney Tower Feedermain and Valve Chamber Replacements	PN0225 Eramosa Road-Orchard Crescent to Victoria Road North	Additional funding needed to complete work that was previously scheduled in 2023 in 2022	210,000
Grand Total	n/a	n/a	n/a	210,000

Table 4 - Reallocations greater than \$500,000 (based on the total reallocated to one capital account)

ID	Transfer From	Transfer To	Entry Description	Amount \$
BR-22CAP-04	RD0385 Cycling Master Plan Implementation	PN0236 Speedvale-Elmira Road to Imperial Road	Additional funds required to cover the costs associated with Active Transportation	565,000
Grand Total	n/a	n/a	n/a	565,000

*To be approved by Council as part of the 2022 Year-End Budget Monitoring Report