

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, June 4, 2019
Subject	First Quarter 2019 Operating Variance Report
Report Number	CS-2019-18

Recommendation

That report CS-2019-18 First Quarter 2019 Operating Variance Report be received for information.

Executive Summary

Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2019 year-end position based on actual financial information as of March 31, 2019, which is the end of the first quarter (Q1) for the Tax Supported and Non-tax Supported programs.

The report focuses on bringing any challenges to the attention of Council and to provide confidence that staff are addressing these issues. Further clarity and year-end variance projections will be brought forward to Council through the second quarter (Q2) 2019 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, 2019, 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 progresses.

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.

The most notable concern and risk to the City's financial position are the most recent provincial government budget announcements. The changes announced through this budget impact Paramedic Services, Public Health agencies, Police Services, Conservation Authorities, research and innovation programs, Library Services, Child Care Services and likely more that are not yet clearly identified.

Many of these changes will download costs to the property tax payers that were previously funded by the province. To date, the City can confirm a loss of Paramedic funding in 2019 totaling \$820,000 which will be partially shared with the

County. Staff are working diligently with our partnering agencies and service providers to understand the service and financial implications of these announcements and will be communicating with Council as we progress through the year and more specific information becomes known.

Internally, a special project team of City leaders has been created to assess, and provide insight to the on-going provincial announcements. This team has been tasked with staying apprised of consultation deadlines, preparing advocacy strategies, assessing impact and keeping staff and Council informed. These announcements are complex and will give rise not only to fiscal impacts but also policy, relationship, process and system impacts that will be felt broadly in this and succeeding years.

Financial Implications

Identification of financial risks and concerns early in the year enables management to put mitigation measures in place or to seek Council direction to continue service delivery under the new financial realities and fund the expected deficit from the reserves.

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, 2019. 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.

Corporate Variance Drivers

The variance drivers 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

Twenty-one per cent of the fuel budget is spent at March 31 across the corporation for all fuel types. Fuel prices increased April 1 due to the federal carbon tax. The average price for regular diesel during Q1 was \$0.97/litre compared to budget of \$1.05/litre. Staff will continue to monitor as increased prices could result in a negative variance at year-end.

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 the second quarter.

3. Benefit Costs

Effective April 1, 2019 the Government of Ontario made significant changes to the Ontario Health Insurance Plan (OHIP) for children and youth. OHIP will no longer provide drug coverage to children and youth under 25 who are covered by a private plan. Staff have consulted with the City's insurance provider and early projections forecast an increased cost to the City of Guelph of approximately \$155,000. Any deficit at year-end would be funded from the Compensation Contingency Reserve in accordance with the General Reserve and Reserve Fund Policy.

4. Provincial Budget Service Change Implications

The province released its first budget under the conservative government in early April 2019. There were a number of announced service provision changes, program cancellations and cost-sharing allocations changes. These changes will have a financial impact on the City, however it is difficult to quantify the total impact at this early stage. The changes announced through this budget impact Paramedic Services, Public Health agencies, Police Services, Conservation Authorities, research and innovation programs, Library Services, Child Care Services and likely more that are not yet clearly identified.

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Staff are working diligently with our partnering agencies and service providers to understand these implications and will be communicating with Council as we progress through the year and more specific information becomes known. Where specific information is known, it has been included in the departmental impacts below.

Departmental Impacts

Public Services – Guelph-Wellington Paramedics

On May 7, 2019, the City received notification from the province that the Paramedic funding would be frozen at 2018 budget levels. This is a significant concern because the 2018 funding was based upon the 2017 actual service costs and since that time, there have been service enhancements approved by Council in each of 2018 and 2019 budget years. The current 2019 loss of income is \$820,000 of which \$500,000 would be borne by the City. Looking forward, if the province continues this position to hold funding at the 2018 levels, the 2020 impact for previously approved service enhancements would be an additional \$540,000 of which \$324,000 would be borne by the City. The City recommended the 2019 service enhancement of eight positions at a net tax cost to the City of \$520,000, and this

included an assumption of 50% provincial funding totaling \$540,000 starting in 2020.

Staff are working through the implications of this announcement and considering short-term mitigation options that do not include reducing service delivery. Staff will report back to Council with a projected year-end impact and possible reserve funding options for this deficit when more is known.

Public Services - Operations

Winter control costs are tracking higher than budget due to a greater number of major weather events in Q1 of 2019 than planned. There is risk that winter control will experience a negative variance at year-end depending on weather conditions in the fourth quarter of 2019. 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.

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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, 2019 with which they provided commentary in consultation with the Finance department.

Corporate Administrative Plan

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

Departmental Approval

Karen Newland, Manager Finance Client Services

Report Author

Ron Maeresera, Sr. Corporate Analyst



Approved By

Tara Baker, CPA, CA
General Manager Finance/City
Treasurer
Corporate Services
519-822-1260 ext. 2084
tara.baker@guelph.ca



Recommended By

Trevor Lee
Deputy CAO
Corporate Services
518-822-1260 ext. 2281
Trevor.lee@guelph.ca