

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Corporate Services
Date	Monday, December 2, 2019
Subject	<b>Third Quarter 2019 Operating Variance Report</b>
Report Number	CS-2019-27

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## Recommendation

That report CS-2019-27 Third Quarter 2019 Operating Variance Report dated December 2, 2019 be received for information.

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## Executive Summary

### Purpose of Report

The purpose of this report is to provide a projection of the 2019 year-end position for the tax supported and non-tax supported operating budgets based on actual financial information as of September 30, 2019.

Further this report highlights any budget variance concerns, challenges and risks that Council should be aware of, as well as staff's plan to address them for the remainder of the year.

### Key Findings

Overall, the City's tax supported budget is projecting a favourable variance of \$2,235,931 or 0.9 per cent of the total budget.

The City's non-tax supported budgets are projecting a total \$4,006,086 net favourable variance.

Attachment-1 provides a projected budget-to-actual variance by department.

Some notable variance drivers identified as contributing to year-end projected variances are:

- a. Positive revenue related variances contributing to departmental results mainly in the areas of blue box grant revenue planning fees, and water and wastewater basic and consumption usage.
- b. A favourable year-end position for salaries, wages and benefit costs due to the naturally occurring recruitment process for hiring vacant positions.
- c. A favourable year-end position for hydro mainly due to sustained energy conservation and efficiency measures.

### Financial Implications

There are no direct financial implications resulting from this report. The actual financial results will not be known until year-end. Any surplus or deficit will be

transferred to or from the City's reserve and reserve funds at year-end in accordance with the Year-end Operating Surplus Allocation Policy.

The year-end 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 affects the affordability of long-term capital projects for the City tax and ratepayers.

## Report

City departments were provided financial information as of September 30, 2019. 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.

Table 1: Summary of Projected Operating Variance for December 31, 2019

	<b>Total Annual Net Budget for Year 2019 (\$)</b>	<b>Projected Net Variance Dec 31, 2019 including projected reserve transfers</b> (brackets note favourable variance)	<b>Projected Variance for Dec 31, 2019 (%)</b>
<b>Tax Supported</b>			
City Departments	\$134,524,001	\$(2,690,131)	(2.0%)
General Revenues, Expenses	\$(216,683,813)	\$454,200	0.2%
Local Boards	\$52,936,596	\$0	0.0%
Shared Services	\$29,223,216	\$0	0%
<b>Total Tax Supported</b>	<b>\$0</b>	<b>\$(2,235,931)</b>	<b>(0.9%)</b>
<b>Non-tax Supported</b>	<b>Gross Expenditure Budget</b>		
Water Services	\$29,077,660	\$(1,029,970)	(3.5%)
Wastewater Services	\$31,947,863	\$(1,100,116)	(3.4%)
Ontario Building Code	\$3,350,000	\$(1,690,000)	(50.4%)
Court Services	\$2,007,300	\$(16,000)	(0.8%)
Stormwater Services	\$6,885,000	\$(170,000)	(2.5%)
<b>Total Non-tax Supported</b>	<b>\$73,267,823</b>	<b>\$(4,006,086)</b>	<b>(5.5%)</b>

## Corporate Variance Drivers

The variance drivers identified below are corporate variance drivers impacting the majority of the departments and have been estimated in the above year-end variance projections, based on current trends. Actual year-end amounts may vary 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. Corporate Revenues

Investment revenues due to increasing Bank of Canada interest rates which are improving the City's cash and investment portfolio returns, are partially offset

due to lower than budgeted dividend income due to change in timing of quarterly dividend distribution from Alectra.

## 2. Compensation

Overall total salary, overtime, benefits, and temporary wages are currently trending lower than budget and are projected to be \$1,400,000 favourable at year-end, inclusive of the natural length of time it takes to fill vacancies. Staff vacancies create challenges for departments and require management to make decisions to ensure service delivery expectations are met. Some examples include increasing overtime, prioritizing work, adjusting work plans, and delaying projects. Overtime is currently trending higher than budget however this is not a concern as departments have been meeting service requirements through the deployment of overtime within the context of the overall compensation budget.

Major factors that have contributed to increased overtime costs include:

- Unplanned storm events that require service levels or statutory requirements to be met.
- Special events such as parades and festivals.
- Staff vacancies including short-term and long-term leaves.
- Critical nature of emergency services and transit operations.
- Emergency repairs to critical infrastructure.

## 3. Utilities

Overall year-to-date energy and water expenditures are trending approximately eight 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, budgets have been adjusted for 2020.

## 4. Fuel

Fuel is currently trending lower than budget by approximately \$330,000 across the corporation for all fuel types despite the introduction of federal carbon tax in April 2019. The average price for regular diesel has been \$0.98 a litre year-to-date compared to budget of \$1.05 per litre. Staff will continue to monitor fuel usage and price increases.

## **City Departmental Variances**

In addition to the corporate variance drivers explained above, the following departments are projecting year-end variances due to the following:

- CAO Administration, Finance, Clerks and Information Technology departments are collectively projecting a favourable variance of \$779,000 primarily driven by staff vacancies.
- Planning and Building Services is projecting net favourable variance of \$331,000 mainly due to higher than budgeted planning application fees due to higher activity levels, and staff vacancy savings.
- Environmental Services is projecting a net favourable variance of \$1,259,631, primarily driven by higher than budgeted revenues in blue box program payments from Stewardship Ontario, increased sale of carbon credits, and savings in expenditures. Staff recommend transferring the additional revenue from the sale of carbon credits to the 100 Renewable Energy Reserve Fund in order to fund the 2020 capital investment in the new 100% Renewable Energy capital funding strategy.

- Culture, Tourism and Community investment is projecting a net unfavorable variance of \$200,000 mainly due to higher part-time wages and overtime required to support various events along with higher repairs and maintenance costs for unforeseen repairs across all facilities.
- Guelph Transit is projecting a favourable variance of \$120,000 due to increased University enrolment resulting in higher U-pass sales as well higher regular monthly passes.
- Operations is projecting a net favourable variance of \$150,000 due to a higher revenues from licenses for pets, and business and taxi licenses, partially offset by higher winter control costs due to a greater number of major weather events in the first 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.
- Water Services is projecting a net favourable variance of \$1,029,970 mainly due to staff vacancy savings, decreased energy spend due to changes in the peaking well operational strategies, and increased volumetric revenues.
- Wastewater Services is projecting a net favourable variance of \$1,100,116 mainly due to staff vacancy savings, higher revenues from wastewater agreements and increased volumetric revenues seen from higher ICI demands.
- Ontario Building Code Administration is projecting a net favourable variance of \$1,690,000 mainly due to higher revenues from a few larger value construction projections.
- Stormwater Services is projecting a favorable variance of \$170,000 due to slower than planned uptake on the credit rebate program, however participation is increasing.

### **Local Boards and Shared Services**

- The County of Wellington is projecting a year-end surplus of \$355,000 (city share) for Social Services, mainly due to staffing vacancies, delay in hiring new positions, and higher rental revenues. Additional detail can be found on page 14 of the [Social Services Financial Statements and Variance Projections as of September 30, 2019](#) Committee Report. The City is not anticipating being in a surplus position, as the City under budgeted for the County in the 2019 budget.

### **Risks**

Fluctuations with actual revenues and expenditures will continue for the remainder of the year until the actual financial results are determined at year-end. The current financial projection based on September 30, 2019 actuals is indicating the City may be in a surplus position. This is subject to change due to the risks already outlined as well as the following:

#### a) Local Boards

Guelph Police Services are currently projecting year-end actuals to be in line with budget. However, if the severity of crime or level of crime increases it may impact overtime resulting in a negative variance.

#### b) Provincial Funding Changes

As reported in the First Quarter Variance Report CS-2019-18, 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 allocation changes. The changes announced through this budget impact 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.

The City has received formal notification of the 2019 Paramedic Services revenue and the total approved funding for 2019 is \$10,017,988 which is \$104,162 lower than budget. This shortfall will be funded by the City and County based on actual call volumes in 2019. The City share is approximately \$65,000.

### **Financial Implications**

There are no direct financial implications resulting from this report. The actual financial results will not be known until year-end. Any surplus or deficit will be transferred to (from) the City's reserve and reserve funds at year-end, subject to Council approval, in accordance with the Year-end Operating Surplus Allocation Policy.

The year-end 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 affects the affordability of long-term capital projects for the Guelph tax and ratepayers.

### **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 departments and the Finance department. Department managers were provided financial reports based on their actual revenue and expenditures to September 30, 2019 with which they provided a projected year-end commentary in consultation with the Finance department.

### **Strategic Plan Alignment**

Reporting quarterly on the operating variance along with a year-end forecast supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

### **Attachments**

Attachment-1 Operating Budget Variance by Department at September 30, 2019

### **Departmental Approval**

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## Operating Budget Variance by Department at September 30, 2019

Department	Annual Budget 2019	Year-to-date Net Expenditures September 30, 2019 (\$)	Projected Variance for Dec 31, 2019 (Favourable)/ Unfavourable (\$)	Projected Reserve Transfer To/(From)	Net Projected Year-end Variance (\$)	Projected Net Variance for Dec 31, 2019 (%)
<b>TAX SUPPORTED</b>						
<b>CAO</b>						
MAYOR AND COUNCIL	\$ 1,128,860	\$ 811,999	\$ (25,000)	\$ -	\$ (25,000)	(2.2%)
CAO ADMINISTRATION	\$ 689,225	\$ 293,243	\$ (155,000)	\$ -	\$ (155,000)	(22.5%)
STRATEGY, INNOVATION & INTERGOVERNMENTAL SERVICES	\$ 874,470	\$ 821,595	\$ 50,000	\$ -	\$ 50,000	5.7%
INTERNAL AUDIT	\$ 288,663	\$ 171,829	\$ (31,000)	\$ -	\$ (31,000)	(10.7%)
CORPORATE COMMUNICATIONS	\$ 1,316,920	\$ 813,798	\$ (20,000)	\$ -	\$ (20,000)	(1.5%)
<b>SUB-TOTAL CAO</b>	<b>\$ 4,298,138</b>	<b>\$ 2,912,464</b>	<b>\$ (181,000)</b>	<b>\$ -</b>	<b>\$ (181,000)</b>	<b>(4.2%)</b>
<b>INFRASTRUCTURE, DEVELOPMENT &amp; ENTERPRISE</b>						
IDE ADMINISTRATION	\$ 193,530	\$ 81,552	\$ -	\$ -	\$ -	0.0%
PLANNING AND BUILDING SERVICES	\$ 3,640,320	\$ 1,478,978	\$ (331,000)	\$ -	\$ (331,000)	(9.1%)
FACILITIES MANAGEMENT	\$ 5,892,207	\$ 4,022,182	\$ (90,000)	\$ -	\$ (90,000)	(1.5%)
ENGINEERING AND TRANSPORTATION SERVICES	\$ 3,402,821	\$ 3,559,637	\$ -	\$ -	\$ -	0.0%
ENVIRONMENTAL SERVICES	\$ 13,064,880	\$ 7,628,863	\$ (1,851,874)	\$ 592,243	\$ (1,259,631)	(9.6%)
BUSINESS DEVELOPMENT & ENTERPRISE SERVICES	\$ 1,527,902	\$ 974,757	\$ (60,000)	\$ -	\$ (60,000)	(3.9%)
<b>SUB-TOTAL INFRASTRUCTURE, DEVELOPMENT AND ENTERPRISE</b>	<b>\$ 27,721,660</b>	<b>\$ 17,745,969</b>	<b>\$ (2,332,874)</b>	<b>\$ 592,243</b>	<b>\$ (1,740,631)</b>	<b>(6.3%)</b>
<b>PUBLIC SERVICES</b>						
PUBLIC SERVICE ADMINISTRATION	\$ 438,850	\$ 323,282	\$ -	\$ -	\$ -	0.0%
PARKS & RECREATION SERVICES	\$ 13,969,492	\$ 9,622,932	\$ (10,000)	\$ -	\$ (10,000)	(0.1%)
CULTURE, TOURISM & COMMUNITY INVESTMENT	\$ 6,531,282	\$ 5,596,333	\$ 200,000	\$ -	\$ 200,000	3.1%
GUELPH TRANSIT	\$ 18,669,181	\$ 16,253,015	\$ (120,000)	\$ -	\$ (120,000)	(0.6%)
OPERATIONS	\$ 15,378,954	\$ 10,000,312	\$ (90,000)	\$ (60,000)	\$ (150,000)	(1.0%)
FIRE SERVICES	\$ 27,631,596	\$ 20,369,261	\$ -	\$ -	\$ -	0.0%
GUELPH-WELLINGTON PARAMEDIC SERVICES	\$ 7,101,695	\$ 4,205,997	\$ (35,000)	\$ -	\$ (35,000)	(0.5%)
<b>SUB-TOTAL PUBLIC SERVICES</b>	<b>\$ 89,721,050</b>	<b>\$ 66,371,132</b>	<b>\$ (55,000)</b>	<b>\$ (60,000)</b>	<b>\$ (115,000)</b>	<b>(0.1%)</b>
<b>CORPORATE SERVICES</b>						
CORPORATE SERVICES ADMINISTRATION	\$ 328,500	\$ 233,152	\$ -	\$ -	\$ -	0.0%
HUMAN RESOURCES	\$ 2,906,621	\$ 1,834,640	\$ (10,500)	\$ -	\$ (10,500)	(0.4%)
INFORMATION TECHNOLOGY	\$ 3,408,910	\$ 1,708,043	\$ (186,000)	\$ -	\$ (186,000)	(5.5%)
CITY CLERK'S OFFICE	\$ 1,704,450	\$ 1,154,937	\$ (138,000)	\$ -	\$ (138,000)	(8.1%)
FINANCE	\$ 2,853,372	\$ 1,603,876	\$ (300,000)	\$ -	\$ (300,000)	(10.5%)
LEGAL, REALTY AND COURT SERVICES	\$ 1,581,300	\$ 447,011	\$ (157,000)	\$ 138,000	\$ (19,000)	(1.2%)
<b>SUB-TOTAL CORPORATE SERVICES</b>	<b>\$ 12,783,153</b>	<b>\$ 6,981,659</b>	<b>\$ (791,500)</b>	<b>\$ 138,000</b>	<b>\$ (653,500)</b>	<b>(5.1%)</b>
<b>TOTAL CITY DEPARTMENTS</b>	<b>\$ 134,524,001</b>	<b>\$ 94,011,224</b>	<b>\$ (3,360,374)</b>	<b>\$ 670,243</b>	<b>\$ (2,690,131)</b>	<b>(2.0%)</b>
<b>GENERAL EXPENDITURES AND CAPITAL FINANCING</b>						
GENERAL EXPENDITURES	\$ 5,607,837	\$ 88,836	\$ 353,400	\$ -	\$ 353,400	6.3%
GENERAL REVENUES	\$ (256,512,596)	\$ (267,139,388)	\$ 117,500	\$ -	\$ 117,500	(0.0%)
CAPITAL FINANCING	\$ 34,220,946	\$ 34,094,825	\$ (16,700)	\$ -	\$ (16,700)	(0.0%)
<b>SUB-TOTAL GENERAL AND CAPITAL FINANCING</b>	<b>\$ (216,683,813)</b>	<b>\$ (232,955,727)</b>	<b>\$ 454,200</b>	<b>\$ -</b>	<b>\$ 454,200</b>	<b>0.2%</b>
<b>TOTAL CITY</b>	<b>\$ (82,159,812)</b>	<b>\$ (138,944,503)</b>	<b>\$ (2,906,174)</b>	<b>\$ 670,243</b>	<b>\$ (2,235,931)</b>	<b>(2.7%)</b>

## Operating Budget Variance by Department at September 30, 2019

Department	Annual Budget 2019	Year-to-date Net Expenditures September 30, 2019 (\$)	Projected Variance for Dec 31, 2019 (Favourable)/ Unfavourable (\$)	Projected Reserve Transfer To/(From)	Net Projected Year-end Variance (\$)	Projected Net Variance for Dec 31, 2019 (%)
<b>LOCAL BOARDS</b>						
GUELPH POLICE SERVICES	\$ 42,019,900	\$ 20,192,992	\$ -	\$ -	\$ -	0.0%
GUELPH PUBLIC LIBRARY	\$ 9,363,062	\$ 4,844,991	\$ -	\$ -	\$ -	0.0%
THE ELLIOTT LONG-TERM CARE	\$ 1,553,634	\$ 1,165,226	\$ -	\$ -	\$ -	0.0%
<b>SUB-TOTAL LOCAL BOARDS</b>	<b>\$ 52,936,596</b>	<b>\$ 26,203,209</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>SHARED SERVICES</b>						
WDG PUBLIC HEALTH	\$ 3,946,400	\$ 2,959,765	\$ -	\$ -	\$ -	0.0%
COUNTY (SOCIAL SERVICES)	\$ 22,109,116	\$ 11,717,944	\$ -	\$ -	\$ -	0.0%
<b>SUB-TOTAL LOCAL BOARDS &amp; SHARED SERVICES</b>	<b>\$ 26,055,516</b>	<b>\$ 14,677,709</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>GRANTS</b>						
GRANTS - SPECIAL PROJECTS	\$ 3,167,700	\$ 3,151,000	\$ -	\$ -	\$ -	0.0%
<b>SUBTOTAL GRANTS, LOCAL AND OUTSIDE BOARDS &amp; AGENCIES</b>	<b>\$ 82,159,812</b>	<b>\$ 44,031,918</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>TOTAL TAX SUPPORTED</b>	<b>\$ -</b>	<b>\$ (94,912,585)</b>	<b>\$ (2,906,174)</b>	<b>\$ 670,243</b>	<b>\$ (2,235,931)</b>	<b>(0.9%)</b>
<b>NON-TAX SUPPORTED</b>						
WATER SERVICES	\$ 29,077,660	\$ 8,219,355	\$ (1,029,970)	\$ -	\$ (1,029,970)	(0.6%)
WASTEWATER SERVICES	\$ 31,947,863	\$ 7,666,397	\$ (1,100,116)	\$ -	\$ (1,100,116)	(1.5%)
ONTARIO BUILDING CODE	\$ 3,350,000	\$ (505,271)	\$ (1,690,000)	\$ -	\$ (1,690,000)	0.0%
COURT SERVICES	\$ 2,007,300	\$ 419,050	\$ (16,000)	\$ -	\$ (16,000)	0.0%
STORMWATER SERVICES	\$ 6,885,000	\$ 2,358,523	\$ (170,000)	\$ -	\$ (170,000)	(3.6%)
<b>TOTAL NON-TAX SUPPORTED</b>	<b>\$ 73,267,823</b>	<b>\$ 18,158,054</b>	<b>\$ (4,006,086)</b>	<b>\$ -</b>	<b>\$ (4,006,086)</b>	<b>(5.5%)</b>