

- ADDENDUM -

**- Corporate Administration, Finance
& Emergency Services Committee -
Council Chambers**

**- November 14, 2011 -
5:00 p.m.**

- 1) Projected Operating Variance Report for 2011**

COMMITTEE REPORT



TO **CAFES**

SERVICE AREA Finance
 DATE November 14, 2011

SUBJECT Projected Operating Variance Report for 2011

REPORT NUMBER FIN-11-51

SUMMARY

Purpose of Report:

The purpose of this report is to provide a high level overview of the expected year end position for the Tax Supported and Enterprise Funded operating budgets.

Council Action:

THAT the Finance report dated November 14, 2011 entitled "Projected Operating Variance Report" be received for information purposes.

SUMMARY

Once the Annual Budget is produced, actual expenditures are monitored and compared against budget. While some differences are expected, variances should not be considerably above or below budget. Actual expenditures which are tracking close to budget are an indication of strong financial stewardship and a solid budget process.

Below is a summary of the projected year end variance position (brackets indicate a favorable variance):

	Variance Amount (\$)	Favorable / Unfavorable	Percentage of Budget (%)
Tax Supported:			
City Departments	(\$225,000)	Favourable	
General Revenues and Expenses	\$325,000	Unfavourable	
Sub-Total City Departments and Financing	\$100,000	Unfavourable	
Local Boards	(\$183,000)	Favourable	
Shared Services & Housing	(\$513,000)	Favourable	
Total Local and External Boards:	(\$696,000)	Favourable	
Total Tax supported:	(\$596,000)	Favourable	(0.36%)
Enterprise Budgets	(\$1,083,000)	Favourable	(2.33%)

The overall projected operating variance for 2011 is anticipated to be within 0.36% of the net tax levy. Similarly for the Enterprise Budgets, the projected operating variance is anticipated to within 2.33% of gross revenue requirements.

Tax supported areas are projecting a net favourable variance of \$596,000. The City Departments are projecting an unfavourable variance of \$100,000. Local Boards, Shared Services and Social Housing have a combined favourable variance of \$696,000.

The Enterprise funded budgets are projecting a net favourable \$1,083,000 variance. Water is expecting a \$683,000 favourable variance primarily due to increased water consumption revenue because of the dryer summer and lower costs. The Wastewater area expects a \$400,000 favourable variance due to increased usage and lower costs than expected. OBC Admin and Court Services are not projecting a variance.

BACKGROUND

These budgets are currently maintained in the City's financial accounting system and were approved by council through the annual budget process

REPORT

Staff have examined the financial condition of the operating budget as of August 31, 2011 and are currently projecting the following year end variances:

TAX SUPPORTED

Overall, the Tax Supported Area is projecting a favourable variance of \$596,000

CAO

- Net projected variance in this area is a favourable \$83,000. The savings in the Finance Department from delayed hiring is offset by unfunded salary costs in EMS. Provincial funding for EMS is in arrears for one year, therefore funding for new positions added in 2011 is not received until 2012.

Operations & Transit

- Net projected variance in this area is an unfavourable \$214,000 due to increased winter control costs, storm cleanup costs, and higher fuel costs. Transit's increased revenue from ticket sales was partially offset by higher fuel costs.

Planning & Building, Engineering & Environmental Services

- Net projected variance in this area is a favourable \$515,000. Waste Management is projecting a \$300,000 favourable variance due to higher

revenues from the sale of recyclable materials, and the balance of the savings due to the delay in hiring FTE's.

Community & Social Services

- Net projected variance in this area is a favourable \$381,000 due to better attendance at camps, reduced utility costs, delayed opening of Guelph Civic Museum and reduced operating time of Market Square.

Corporate and Human Resources

- Net projected variance in this area is an unfavourable \$540,000 mainly due to unbudgeted legal costs related to OMB and other hearings. OMB related costs have historically been funded from reserves, as there is currently no amount budgeted for these costs. The projected costs in this area for 2012 are in excess of \$400,000 with a current balance in the OMB reserve of \$680,000.

Local Boards

- Police are projecting a \$183,000 favourable variance driven by position vacancies, grants (PAVIS), secondment recoveries, and delay to 2012 of the new poly-wool uniform.
- The Library is not projecting a year end variance.

Shared Services & Social Housing

- Net projected variance in this area is a favourable \$513,000. Social Assistance is projecting that the City's share of the favourable variance will be \$750,000 due to a lower caseload and increased admin subsidy from the province. An unfavourable variance of \$277,000 is due to unbudgeted capital related costs for the Health Unit.

General Revenues and Expenditures

- Net projected variance in this area is an unfavourable \$325,000 due to lower than expected supplementary taxes, shortfall in Payments in Lieu (PIL), higher than budgeted taxes written off and increased vacancy rebates. This variance was offset by higher late payment interest revenue and delayed capital finance charges as a result of a delayed debt issue.

ENTERPRISE

Overall, the Enterprise budgets are projecting a favourable variance of \$1,083,000

Water Works

- Water is projecting a \$683,000 favourable variance due to increased consumption and operating expenses tracking less than forecast.

Wastewater

- Wastewater is projecting a \$400,000 favourable variance due to increased consumption and operating expenses tracking less than forecast.

Ontario Building Code

- OBC is projecting no year-end variance. Budgeted revenue is expecting a shortfall of \$300,000 resulting in a smaller surplus transferred to the reserve

Court Services

- Court services are not projecting a variance for the year.

The Executive Team, in consultation with the Finance Department, have agreed that it is prudent to closely monitor the operating budget for the remainder of 2011.

Steps that will be taken include:

1. Enhanced monitoring of any discretionary spending
2. Executive Team is to approve all new hires for the balance of 2011.
3. Use of Reserves. While use of reserves are considered a last resort, the following operational reserves are available to offset negative variances:
 - Operating Contingency Reserve has a balance of \$902,000. This reserve was created to supplement unforeseen spikes in operating expenses.
 - OMB/Legal Reserve has a balance of \$680,000. This reserve was established to fund legal fees and expenses to support the City's position in OMB and other Legal Proceedings.

RISKS

Despite the mitigation measures suggested, uncontrollable circumstances could further adversely affect any projected variance for the remainder of the year. The key risks identified from the Executive Team review are:

1. There are currently enough funds for one major winter storm for the remainder of 2011. Additional storm cleanup costs would have a further negative impact.
2. The current projection assumes that there will be no emergency situation for EMS or Fire. If a major emergency occurs, this will have a negative impact on our projections.
3. The West End Recreation Centre was shut down due to an electrical panel issue leading to loss of revenue. There may be a negative impact on projected revenue if a recovery through insurance is not approved.

CORPORATE STRATEGIC PLAN

Monitoring of the variance report and mitigation of any negative variances will assist in achieving Strategic Objective 5.5 – A high credit rating and strong financial position.

FINANCIAL IMPLICATIONS

Ongoing monitoring of the operating budget is an important function so that Senior Management and Council can take steps to mitigate unfavourable variances before year end. Favourable year end variances will be transferred to the appropriate Tax or User Pay rate stabilization reserves.

DEPARTMENTAL CONSULTATION/CONCURRENCE

Departments must manage their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by Finance and the Departments managing their programs. Projected variances and their related comments were provided by the Service Areas based on financial information provided by Finance.

COMMUNICATIONS

Operating variance reports are prepared periodically for Council to keep them up to date on the projections for year-end variances.

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