

Request for Decision

2015 Water Wastewater Variance Report

Presented To:	Audit Committee
Presented:	Tuesday, Jun 21, 2016
Report Date	Thursday, Jun 02, 2016
Type:	Routine Management Reports

Resolution

THAT the City of Greater Sudbury accepts the December 31, 2015 Water Wastewater Variance Report dated June 2, 2016 from the Acting Chief Financial Officer/Treasurer and the General Manager of Infrastructure Services outlining the audited year end position.

YEAR END VARIANCE

The year end net under expenditure for Water and Wastewater Services is \$11,694 as outlined in Schedule A. Water is recording an over expenditure of \$2,146,008 while Wastewater is in an under expenditure of \$2,157,702. In accordance with the By-law, the water over expenditure was funded by a contribution from the Water Capital Financing Reserve Fund and the wastewater under expenditure was contributed to the Waste Water Capital Financing Reserve Fund.

The major contributors to this over expenditure are:

Category	Favourable/(Unfavourable)
User Fees	\$(1,390,823)
Cont'n from Reserve Funds	\$(1,219,119)
Other Revenues	269,340
Salaries and Benefits	\$1,067,224
Materials	\$1,302,827
Purchased Services	\$(1,832,399)
Debenture and Insurance	\$1,570,312
Internal recoveries	271,076
Other net variances	\$(50,132)
Total 2015 Under Expenditure	\$11,694

Signed By

Report Prepared By
 Dion Dumontelle
 Co-ordinator of Finance, Water Wastewater
Digitally Signed Jun 2, 16

Recommended by the Department
 Ed Stankiewicz
 Acting Chief Financial Officer/City Treasurer
Digitally Signed Jun 2, 16

Recommended by the C.A.O.
 Ed Archer
 Chief Administrative Officer
Digitally Signed Jun 8, 16

VARIANCE EXPLANATIONS

User Fees

Actual user fee revenues are below budgeted amounts. For 2015 the estimated consumption was budgeted at 14.2 million cubic metres while the actual consumption for 2015 was 13.7 million cubic metres. For 2016 the budgeted consumption has been set at 14.0 million cubic metres.

Contribution from Reserve Funds

During the spring of 2015, staff prepared a report requesting additional funds of \$1.75 million to cover the higher than usual anticipated costs of repairing service cuts resulting from the severely cold winter. The actual costs of these repairs were \$1.2 million less than anticipated and as such did not require the full draw from reserve funds.

Other Revenues

Other revenues favourable variance of \$269,000 is due to higher than anticipated volumes of hauled liquid waste from commercial customers as well as unbudgeted revenues from sludge received from other municipalities and hydro costs recovered from the biosolids operator.

Salaries and Benefits

Salaries and benefits are under budget by approximately \$1,067,000. The division experienced staffing vacancies from a variety of factors such as short and long term employee illnesses, and turnover. For many of these specialized vacancies, the division has been unable to fill the vacancies on a timely basis. This problem is particularly acute for short term, temporary, or limited vacancies as candidates with the required certifications and other qualifications are not forthcoming for such transient opportunities. In addition, the use of overtime was significantly lower than budgeted contributing to the under expenditure.

Materials

Materials were under budget by \$1,302,000. Inventory was counted and recorded for the first time since amalgamation. The value of this inventory resulted in a one-time favourable entry of \$850,000. Chemicals were over budget by \$100,000 while other materials related to break down repairs and plant maintenance were under budget by \$550,000.

Purchased Services

Purchased service costs were over budget by \$1,832,000 and the contributing factors to this budget overrun are:

1. Due to staff vacancies, certain repair work was directed to contractors.
2. The increased repair rate related to the age of the infrastructure
3. The 2015 winter was unusually cold leading to increased number and cost of repairs. As well, the wet fall left the ground saturated when the frost came creating conditions conducive to breaks.

The budget overages occurred as follows:

1. There were 184 watermain breaks to the end of December, compared to 141 breaks for the 2014 calendar year. In addition, the average cost per watermain break repair was \$21,500 which was more than \$3,000 higher than the previous 3 year average. This resulted in this line item being over budget by \$1,506,000.
2. Frozen water services thawing repairs performed by contractors numbered approximately 562. This additional expense amounted to approximately \$975,000 in unanticipated expenditures over

budgeted amounts.

3. All other repair work to water related infrastructure (hydrants, curb boxes, valves etc) was over budget by \$900,000.
4. Sewer main and manhole repairs were over budget by only \$155,000.

The cumulative effect of the above four items is an over expenditure of \$3,536,000.

Offsetting these overages were the following underages:

1. The aforementioned repair costs to service cuts were \$1.2 million less than anticipated.
2. The Biosolids plant operating costs were conservatively budgeted to start at an earlier date than scheduled. The effect was a under expenditure of \$472,000.

The cumulative effect of these overages and undergoes is a net overage of \$1,832,000 in this line item.

Given the high demand on City staff time for regularly scheduled operations and maintenance activities, which in most cases have regulatory implications, more than half of the emergency watermain and sanitary sewer repairs are being performed by contractors. To minimize the disruption to citizens affected by the lack of water these are most frequently performed after hours when City crews are unavailable.

Consequently purchased services are higher but are partially offset by savings in salaries and materials.

Debentures and insurance

The budget underage of \$1,570,000 is due to the fact that the debt repayment related to the Biosolids plant was budgeted for the whole year but did not start until May when the plant commenced operations.

Additionally, the actual principal borrowed and the interest rate on the external debt were both lower than budgeted which further contributed to the savings in this category

Internal Recoveries

The underexpenditure in this category is due primarily to internal direct charges from support departments such as engineering, and administrative services coming in at less than budgeted amounts.

Conclusion

In accordance with the By-law, the water over expenditure has been funded by a contribution from the Water Capital Financing Reserve Fund and the wastewater under expenditure was contributed to the Waste Water Capital Financing Reserve Fund.

**Revenue & Expense Summary
Water/Waste Water Mtce.**

Year Ended December 31, 2015 (based on December 31 audited operating results)



Schedule A

	Annual Budget	Audited Actual at December 31	Variance Favourable/ (Unfavourable)	Projected % of Budget
Frontage Charges	229,938	229,969	31	100
Provincial Grants & Subsidies	-	-	-	-
User Fees	61,251,728	59,860,905	(1,390,823)	98
From Reserve and Reserve Funds	2,797,213	1,578,094	(1,219,119)	56
Other Revenues	359,600	628,940	269,340	175
Municipal Levy (fire protection)	3,321,002	3,321,002	-	100
Total Revenues	67,959,481	65,618,910	(2,340,571)	97
Salaries & Benefits	13,441,788	12,374,564	1,067,224	92
Materials Expenses	4,715,510	3,412,683	1,302,827	72
Equipment Expenses	-	-	-	-
Energy Costs	4,211,393	4,284,666	(73,273)	102
Purchased/Contract Services	10,867,552	12,699,951	(1,832,399)	117
Debenture & Insurance Costs	4,289,574	2,719,262	1,570,312	63
Prof Development & Training	75,198	53,054	22,144	71
Grants - Transfer Payments	5,000	4,034	966	81
Prov to Reserves & Capital	23,405,157	23,405,157	-	100
Internal Recoveries	6,948,309	6,677,233	271,076	96
Total Expenses	67,959,481	65,630,604	2,328,877	97
Excess (Deficiency) of Revenue Over Expenses (before contribution to Reserve Funds)	-	(11,694)	(11,694)	
Contribution from (to) Water Reserve Fund	-	2,146,008		
Contribution from (to) Waste Water Reserve Fund	-	(2,157,702)		
Excess (Deficiency) of Revenue Over Expenses (after contribution to Reserve Funds)	-	(11,694)		