

# 2017 Year End Operating Budget Variance Report

## Executive Summary

This report provides Council with an analysis of the City's year end position. The 2017 year end net over expenditure is \$1.4 Million. The deficit will be funded from the Roads Winter Control Reserve Fund in accordance with the Reserves and Reserve Funds By-Law.

## Background

The purpose of this report is to provide Council with an overview of year end variances. The monitoring and reporting of variances has been conducted in accordance with the Operating Budget Policy. Council is provided with a variance report after each quarter end. This report is an update from the year end forecast provided to Council in December 2017 and the projections included in the 2018 budget binder.

In accordance with the Reserves and Reserve Funds By-law, certain service areas that experienced a net under expenditure may retain this under expenditure if it does not put the municipality in a deficit position or increase the deficit; these areas include Information Technology, Pensioners, Land Reclamation Services, Social Housing Services, Libraries, and Police Services. The total net under expenditures for these areas was approximately \$200,000, however these areas did not retain their respective surpluses for 2017 as a result of the overall year end net over expenditure.

Attached is an additional schedule that reflects the annual net budget, year end position and variance for each area. In accordance with the Operating Budget Policy, the following explanations relate to areas where a variance of greater than \$200,000 resulted within a division or section.

## Variance Explanations

### 1) Other Revenues and Expenses

This category is reflecting a net over expenditure of \$330,000 as follows:

- Increase in investment income of \$270,000.
- Increase in estimated liability relating to legal actions pending against the City in the amount of \$250,000.
- Unbudgeted funding provided to the Sudbury Theatre Centre in the amount of \$200,000.
- Various over expenditures totaling \$150,000 including increases in credit/debit charges, staffing, and reduced revenue for aggregate resources.

### 2) Legal & Clerks Services

This area is reflecting a net under expenditure of \$980,000 as follows:

- Revenues from Provincial Offences Act fees net of the victim fine surcharge exceeded budget by approximately \$950,000 and are affected by a number of factors including the number of charges laid, decisions made by the courts, and collection of significant fines.
- Salaries and benefits were under budget by \$200,000 as a result of vacancies.
- Legal costs are over budget by \$350,000 for external legal resources resulting from a significant increase in the amount and uniqueness of protracted litigation files.
- Various under expenditures in materials and office expenses totaled \$180,000 in an effort to mitigate the increase in legal costs.

### **3) Security & By-Law**

This area is reflecting a net over expenditure of \$280,000 as follows:

- Over expenditure in salaries and benefits of \$100,000 due to increased part time staff and overtime required to perform operations and complete files.
- A net over expenditure of \$130,000 in animal control largely due to a shortfall in animal tag revenues, additional supplies, and increased utility costs.
- Shortfall in licenses revenues of \$50,000.

### **4) Information Technology**

This area is reflecting a net under expenditure of approximately \$220,000 as follows:

- Salaries and benefits were under budget by \$170,000 as a result of vacancies and difficulties filling them.
- Under expenditures in operating expenses of \$100,000 primarily for telephone costs and equipment purchases.
- Over expenditure in software support and maintenance of \$50,000 as a result of a move by vendors from periodic software license towards annual software subscriptions.

### **5) Human Resources and Organizational Development**

This area is reflecting a net over expenditure of approximately \$390,000 as follows:

- Increases in legal costs of \$290,000 due to a higher number of investigations, arbitration cases, human rights cases, employee changes and departures, issues related to health and safety and expenditures related to interest arbitration with the International Association of Fire Fighters (IAFF) and CUPE 148.
- Retirement fringe benefits are over budget by approximately \$440,000 due to the rise of health and dental benefit costs, and increased number of retirees.
- Salaries and benefits were under budget by \$300,000 as a result of staff on sick leave and vacancies.
- Miscellaneous operational expenses are under budget by \$40,000 in an effort to mitigate over expenditures in other areas.

### **6) Finance, Assets and Fleet**

The year end net over expenditure of approximately \$980,000 consists of over expenditures of \$300,000 in Assets and \$680,000 in Fleet as follows:

The Assets net over expenditures of \$300,000 is a result of:

- Supplementary taxes for the Transit and Fleet garage resulting from a reassessment.

The Fleet net over expenditure of \$680,000 is primarily a result of:

- Over expenditure in vehicle repair, replacement parts and contracted services of \$680,000, largely a result of fleet vehicles remaining in service beyond their useful lives.

### **7) Economic Development**

This area is reflecting a net under expenditure of \$350,000 as follows:

- Under expenditure in Salaries & Benefits of \$250,000 due to vacancies and staff turnover.
- Under expenditure of \$100,000 in marketing and advertising costs primarily due to increased revenues from partners, allowing the division to achieve goals with reduced reliance on the municipal budget.

## **8) Social Services**

This area is reflecting a net under expenditure of \$1.1 million as follows:

- A positive variance of \$370,000 as a result of completing reconciliations for prior years' funding received from the Ministry of Community and Social Services
- An over expenditure of \$340,000 due to increased spending on discretionary special items and services.
- Increased grant revenue of \$1.1 million to fund administrative costs not recorded in Social Services
  - Employee liabilities including WSIB liability and post-employment liabilities
  - Additional program support costs
  - Items expensed from the capital fund
  - Support areas not funded through program support

## **9) Transit Services**

This is reflecting a net over expenditure of \$940,000 as follows:

- A shortfall in user fee revenue of \$240,000, specifically in fare box revenue and special monthly passes, slightly offset by an increase in monthly pass revenue.
- Over expenditures in material costs for vehicle repair, maintenance, servicing, and shop supplies of \$805,000.
- An under expenditure in salaries due to vacancies, and contract services based on utilization of \$180,000.
- An increase in Diesel fuel of \$75,000 due to increasing fuel rates.

## **10) Roads**

This area is reflecting a net over expenditure of \$2 million as follows:

- The net over expenditure of \$1.9 million in roads winter maintenance is a result of the above average snowfall throughout the year, and an increased number of freeze/thaw events. In accordance with the Reserves and Reserve Funds By-Law, this over expenditure may be funded from the Roads Winter Control Reserve Fund.

## **11) Emergency Medical Services**

This area is reflecting a net under expenditure of \$560,000 as follows:

- Salaries and benefits are under spent by \$470,000 due to vacancies in year and sick leaves unable to be filled. Leave of absences were significantly impacted by recently passed presumptive legislation related to Post Traumatic Stress Disorder (PTSD).
- Under expenditures of \$80,000 in software costs and \$10,000 in office supplies.

### Non Tax Levy Supported Areas:

In addition to the operating variances reported above, there are a number of areas which are not funded by the municipal tax levy, and therefore any over or under expenditures result in increased contributions to or from Reserves. The chart below indicates the variances between the budgeted and actual contributions to reserve for these areas.

Area	Budgeted Contribution to(from) Reserve	Actual Contribution to (from)Reserve	Increase(Decrease) in Contribution to Reserve
Parking Services	\$668,864	\$708,368	\$39,504
Building Services	(\$782,377)	\$1,175,145	\$1,957,522
Cemetery Services	\$157,275	\$162,632	\$5,357
RBC Business Centre	(\$115,023)	\$0	\$115,023
Water / Wastewater	\$0	(\$854,378)	(\$854,378)

### Building Services

This section experienced a net under expenditure of \$1.9 million. In accordance with Bill 124, revenues generated from building permits are to be used to support the Building Services department. Therefore any surplus is contributed to the reserve to fund future deficits. In 2017, Building services experienced a significant increase in building permit revenues for large construction projects within the city.

### Water Wastewater Services

- User fee revenues were under budget by \$2.5 million as actual billed consumption was 13.0 million cubic metres while the budget for 2017 was 13.8 million cubic metres. A large portion of the decrease was attributable to the wet spring and summer weather conditions.
- Other revenues were over budget by \$440,000 due to recovery of hydro costs from the Biosolids facility and increase volumes of hauled liquid waste received at the Sudbury wastewater treatment plant.
- Salaries and benefits were under budget by \$580,000 due to staffing vacancies in the management and operations level.
- Materials and operating expenses were over budget by \$400,000 due to increased volumes of chemicals used in both water and wastewater treatment processes. As well, inventory consumption adjustments added \$225,000 to this category.
- Purchased and Contract Services were under budget by \$930,000 due primarily to the fact that City crews were responsible for performing emergency repairs to its linear infrastructure. There were savings in certain aspects of the purchased service accounts, but there were additional expenses related to rented equipment, cold patching repairs and the fact that some repair work was performed by external contractors due to the size and complexity and unavailability of City crews. There was an under expenditure of \$500,000 in linear repair related purchased service accounts. Sludge haulage costs were under budget by \$130,000 due to savings realized through the ability to thicken sludge at outlying plants, effectively reducing water content and subsequently the number of loads hauled. Locate costs were under budget by \$350,000 due to decreased activity and the ability of staff to limit the amount of locates performed by contractors.
- In summary, total revenues were under budget by \$2 million and total expenditures were under budget by \$1.2 million resulting in a net over expenditure of \$850,000 in Water and Wastewater Services for 2017. Water had an under expenditure of \$290,000 which was contributed to the

Capital Financing Reserve Fund – Water in accordance with the Reserves and Reserve Funds By-Law. Wastewater had an over expenditure of \$1.15 million which was funded by a contribution from the Capital Financing Reserve Fund- Wastewater in accordance with the By-Law.

## **Summary**

As per the attached schedule, the City's net year end deficit of \$1.4 million is funded from the Roads Winter Control Reserve Fund in accordance with the Reserves and Reserve Funds By-Law.