

## 2020 Operating Budget Variance Report

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### Report Summary

This report provides information regarding the City's year-end position.

### Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters.

### Financial Implications

There are no financial implications associated with this report

### Executive Summary

This report provides Council with an analysis of the City's year-end financial position and related service outcomes for 2020. The 2020 year end surplus is \$9.8 Million.

The surplus will be contributed equally to the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General in accordance with the Reserves and Reserve Funds By-Law.

The city was also able to make the following contributions to Reserves and Reserve Funds:

|  |           |
|--|-----------|
| Library & Citizen Services Reserve Fund  | \$871,077 |
| Human Resources & Organizational Development Reserve for Training and Professional Development | \$707,955 |
| Social Housing Reserve Fund  | \$961,635 |
| Capital Financing Reserve Fund – EMS   | \$826,208 |

## COVID-19

Covid-19 played a significant role in the City's operations in 2020. As a result of provincial direction to reduce the spread of the virus, the City experienced several facility closures, as well as changes in common practices and policies to ensure proper physical distancing. All of these adjustments to typical practices have resulted in significant financial pressures.

During 2020, Council approved several initiatives with the objective of reducing the overall impact of Covid-19 on the City's financial position. These initiatives included:

- Layoff of casual and seasonal part-time employees.
- Suspending summer student hiring
- Increasing salary gapping target
- Adapting service levels to reflect current demand.
- Temporary closure of City operated pools

At the time these initiatives were introduced, there was no indication that financial support would be provided from senior levels of government. These initiatives were critical in ensuring the City's financial position would be manageable at the end of 2020.

Late in 2020, the Province announced the Safe Restart Municipal Stream funding to support municipalities and offset the impact of Covid-19. The City received \$9.1 million dollars in 2020 as part of Phase 1. The City also received provincial funding related to Covid-19 for Transit, Paramedic Services, Social Services, and Pioneer Manor for overall funding of \$21.3 million. Appendix 1 provides a summary of the federal and provincial funding, and Covid-19 related expenses recognized in 2020. The City also recognized significant revenue shortfalls in parking, transit, leisure programming, and Pioneer Manor. In most cases, specific funding sources were identified to offset the revenue shortfall, with the exception of leisure programming. Had the City not received provincial support, and adapted service levels as directed by Council, a year end deficit of upwards of \$20 million could have materialized.

The purpose of this report is to provide Council with an overview of year end variances and the variations in service outcomes versus planned 2020 objectives. The monitoring and reporting of variances has been conducted in accordance with the Operating Budget Policy. Council is provided with a variance report on a regular basis throughout the year. This report is an update from the year end forecast provided Council in December 2020 and the projections included in the 2021 budget binder.

Attached is an additional schedule that reflects the annual net budget (Appendix 2), 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 and 2020 Service Performance

#### 1) Revenue Summary

This area is reflecting a net under expenditure of \$540,000 relating to property taxes as follows:

- Decrease in tax write off expenses of \$990,000 as a result of staff's expertise and experience in defending property assessment appeals.
- Decrease in supplemental taxation revenue of \$710,000.
- Increase in payment in lieu of taxation of \$280,000.
- Increase in property tax rebates for charities of \$20,000.

## **2) Other Revenues and Expenses**

This area is reflecting a net under expenditure of \$3.83 million as follows:

- Increased revenues for Covid-19 Safe Restart Municipal Stream used to offset expenses related to Covid-19 throughout the entire organization, offset by corporate expenditures related to Covid-19, resulting in a net surplus of \$6.4 million.
- A reduction in slot revenues of \$1.6 million as a result of Casino closure.
- An overall increase in interest revenue of \$4.0 million primarily due to interest on investments, offset by interest income lost on property taxes due to the deferral of tax due dates.
- An over expenditure in debt repayments with a net impact of \$3.4 million, which is offset by the additional investment earnings throughout 2020.
- Planned salary gapping of \$1 million, although the actual savings are presented within each division.
- Lower than anticipated MAT revenues with a net impact of \$190,000.
- Over expenditures related to the Junction project totaling \$195,000 primarily due to salaries and benefits.

## **3) Office of the CAO**

This area is reflecting a net under expenditure of \$270,000 as follows:

- Under expenditure in libraries of \$870,000 largely due to closures of the facilities due to Covid-19. This surplus was contributed to the reserve in accordance with the Reserve and Reserve Fund By-Law.
- Under expenditure in Communications of \$160,000 primarily in salary and benefits due to vacancies in year.
- Under expenditure in Museums of \$80,000 due to closures of the facilities as a result of Covid-19.
- Under expenditures in Strategic Initiatives of \$45,000 primarily in salary and benefits due to a vacancy and delay in hiring contract positions.

## **4) Security, By-Law and Parking**

This area is reflecting a net over expenditure of \$600,000 as follows:

- Lower than anticipated security and by-law user fees and fines resulting in a net impact of \$385,000. This is a direct impact of the Covid-19 pandemic. As a result of discontinued Parking Enforcement between March and July and further reduced until October there was a 34% reduction compared to the previous two-year average revenue associated with parking fines.
- Lower than anticipated lottery licenses resulting in a net impact of \$105,000. This is a direct impact of the Covid-19 pandemic. As a result of reduced Municipal transfer payments from OLG and significant reductions fundraising efforts for private community groups, there was a 37% reduction compared to the previous two-year average revenue for Lottery Licensing.
- Lower than anticipated user fee revenue of \$110,000 related to Animal Control canine licenses and redemption fees. This is a direct impact of the Covid-19 pandemic, As a result of reduced proactive enforcement efforts specific to animal licensing requirements, there was a 35% reduction compared to the previous two-year average revenue for animal licensing.

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

This area is reflecting a net over expenditure of \$2.4 million as follows:

- An over expenditure of \$2.1 million to record the liability relating to the Long Term Disability portion of employee benefits. When funded, the City will no longer incur interest charges on the deficit amount.
- Over expenditure in legal counsel expense of \$172,000.
  - Expenditures in legal fees were over budget due to increased costs associated with various labour relations and employment matters, including Fire Interest Arbitration, individual employment matters, and costs associated with grievance mediation and arbitration. There is no impact on service levels and is in large part due to contractual obligations.
- Over expenditure in Job Evaluation (JE) expense of \$173,000.
  - The HR job evaluation account is only used when a job evaluation spans a number of years and multiple departments. The over expenditure is due to the resolution of the evaluations of more jobs that increased in value and had multiple incumbents and spanned more than one year for retroactivity. These outcomes can vary from year to year depending on the number of JE outcomes, arbitration awards and motion lost awards where the retroactive outcome can span multiple years and involve multiple incumbents. Once the JE outcome is known, operating budgets are adjusted for the following year to reflect JE outcomes.

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

This area is reflecting a net under expenditure of \$380,000 as follows:

- An over expenditure in Fleet Services totalling \$750,000. This is primarily related to Covid-19 expenditures of \$301,000, vehicle servicing of \$240,000, vehicle and equipment material of \$200,000 and insurance expense of \$20,000.
- An under expenditure in Asset Services totalling \$1,070,000. This is primarily related to the following:
  - An under expenditures in energy costs of \$490,000, which are a direct result of the Covid-19 pandemic.
  - An under expenditures in salaries and benefits of \$370,000 resulting from Covid-19 and vacancies.
  - An under expenditure in grounds maintenance of \$90,000, due to a reduction in the number of storm events and snowfall in 2020.
  - An under expenditure in structural and elevator maintenance at Tom Davies Square of \$80,000 due to reduced occupancy in the facility, as well as elevator maintenance being included in the construction contract.
  - Additional lease revenue of \$40,000.

## **7) Economic Development**

This area is reflecting a net under expenditure of \$375,000 as follows:

- Under expenditure of \$265,000 in Business Support, directly attributable to the Covid-19 pandemic. This under expenditure resulted in very little service interruptions as a result of the State of Emergency.

- Under expenditure of \$110,000 in Salaries and Benefits, primarily due to vacancies throughout the year.

## **8) Long Term Care – Senior Services**

This area is reflecting a net under expenditure of \$670,000 as follows:

- An under expenditure in salaries and benefits for \$370,000 due to in year vacancies.
- Unanticipated funding of \$200,000 for the High Wage Transition Fund and Minor Capital that was expected to end in 2019.
- An unanticipated increase in the Case Mix Index funding (CMI) resulting in additional funding of \$100,000.

## **9) Social Services**

This area is reflecting net under expenditure of \$1. 9 million as follows:

- Under expenditure of \$1.76M in Service Contract expenses as the 2020 budget submission was approved with the Provincial government permitting the municipality to apply Ontario Works administration expenses to Covid-19 related expenses throughout the year. The reduction in Ontario Works caseloads due to Federal benefits resulted in the re-direction of funds to support costs associated with homelessness supports and services.
- Employment Services were suspended for the year due to low caseloads and contract services were reduced as no new programs were offered for training through local colleges.
- The reduction in Ontario Works caseloads resulted in a reallocation of funds to support costs associated with social services programs and an overall under expenditure of \$140,000.

## **10) Children Services**

This area is reflecting a net under expenditure of \$870,000 as follows:

- A reduction in the municipal cost share requirement of \$870,000 as a result of:
  - The Ministry of Education recalculating the 2020 budget to adjust for temporary childcare program closures during the pandemic.
  - Revenue recognized from prior year adjustment.

## **11) Leisure and Cemetery Services**

This area is reflecting a net under expenditure of \$1.8 million follows:

- A shortfall in revenues of \$4.1 million, primarily in user fees, advertising and lease revenues due to closure of various recreational facilities such as arena, pool, play-field and fitness centres.
- An under expenditure in salaries and benefits of \$3.8 million due to closure of facilities, services and salary gapping.
- An under expenditure in operating expense of \$2.1 million including utilities due to closure of various recreational facilities for extended period.

Overall the service level was adapted as a result of provincial direction to prevent the spread of Covid-19 in the community.

## **12) Infrastructure Capital Planning**

This area is reflecting a net under expenditure of \$655,000, this is a result of the following:

- Under expenditure in traffic and transportation of \$605,000 as a result of the global pandemic. This includes the delay in the implementation of the red light camera program, savings in labour and vehicle rentals from not hiring summer students, and salary gapping.
- Under expenditure in administration of \$34,000 as a result of lower than anticipated labour costs from salary gapping.

### **13) Linear Infrastructure Maintenance**

This area is reflecting a net under expenditure of \$235,000, this is a result of the following:

- Under expenditure in the summer maintenance program of \$296,000. Savings realized in labour and materials were offset by over expenditures in contract services. The contract services over expenditures were due to unforeseen culvert and storm sewer repairs, asphalt patching, and guide post repairs.
- Over expenditure of \$32,000 in public works depots primarily due to additional Covid-19 expenditures.

### **14) Environmental Services**

This area is reflecting a net under expenditure of \$1.25 million, this is a result of the following:

- An increase in Tipping Fee revenues of \$216,000.
  - The year-end surplus is attributed to an increase from tipping fee revenues. Tipping fee revenues can vary from year to year and a three year rolling average is typically used for future annual budgets.
- An under expenditure of \$468,000 in Blue Box Recycling processing.
  - The year-end surplus is attributed to the receipt of less material from the ICI sector.
- An under expenditure of \$198,000 in Collection of various materials.
  - The year-end surplus is attributed to temporary suspensions of various waste programs due to Covid-19.
- An under expenditure of \$281,000 in wood, yard and organic processing at various sites and an under expenditure of \$80,000 in Landfill operating costs.
  - The year-end surplus is attributed to a reduction of leaf & yard trimmings, organics and other waste processing costs. These costs can vary from year to year and as a result, historical averages along with specific contractual terms and conditions will be evaluated in order to determine the impact to future annual budgets.

### **15) Planning and Development**

This area is reflecting a net under expenditure of \$555,000 as follows:

- An under expenditure in Salaries and Benefits of \$550,000 as a result of in year vacancies.
- An under expenditure in Purchased Services of \$55,000, relating to the CPTED Program and Peer Review Consultant costs due to Covid-19 restrictions and to mitigate anticipated City budget shortfall due to Covid-19.

### **16) Police Services**

This area is reflecting a net over expenditure of \$570,000 which relates primarily to unbudgeted Covid-19 expenditures. These costs will be offset by the 2020 Safe Restart funds received by the City of Greater Sudbury and held in the centralized corporate account.

### **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 Reserve | Actual Contribution to Reserve | Increase in Contribution to Reserve |
|--------------------|----------------------------------|--------------------------------|-------------------------------------|
| Parking Services   | \$798,846                        | \$907,423                      | \$108,577                           |
| Water / Wastewater | \$0                              | \$449,326                      | \$449,326                           |

| Area                     | Budgeted Contribution (from) Reserve | Actual Contribution to / (from) Reserve | Decrease in Contribution from Reserve |
|--------------------------|--------------------------------------|---|---------------------------------------|
| Building Services        | (\$835,873)                          | \$269,609                               | \$1,105,482                           |
| Regional Business Centre | (\$145,943)                          | \$34,815                                | \$180,758                             |

### **Parking Services**

Parking Services experienced a significant loss in revenue as a result of Covid-19 and many people working from home. This shortfall in revenue is eligible to be funded through the Safe Restart Transit Stream Provincial Funding. As a result, Parking Services realized \$1.2 million in provincial funding.

### **Building Services**

This section experienced a net under expenditure of \$1,105,482. 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 2020, the Building Services budget included a draw from reserve of \$835,873 to balance the budget, however an increase in building permit revenues as well as a decrease in salaries and benefits due to vacancies in year resulted in a contribution to the reserve. There were no impacts on service levels arising from these variances.

### **Water Wastewater Services**

- User fee revenues were under budget by \$440,000 as actual billed consumption was 13.225 million cubic metres while the budget for 2020 was 13.350 million cubic metres. Decreased commercial consumption was offset, in part, by increased residential consumption as anticipated during varying degrees of Covid-19 lockdowns and stay at home measures.
- Treatment and Compliance was over budget by \$760,000 on budgeted expenditures of \$26.7 million;
  1. Salaries and benefits were under by \$255,000 due to administrative vacancies.
  2. Purchased Services were over by \$380,000 due to higher than normal snow plowing and removal costs as well as unplanned contracted repair work at numerous facilities.
  3. Energy costs were under budget by \$635,000, largely resulting from the energy saving initiative at the Kelly Lake Wastewater Treatment Plant.
  4. Chemical costs were over budget by \$455,000 due primarily to price increases and incremental quantities used. There were 30.57M cubic metres of wastewater treated in 2020 compared to the previous five-year average 29.9M cubic metres. Other operating materials were over budget by \$375,000 due to equipment repairs and replacements on aging infrastructure not covered by limited capital funds.
  5. Property taxes were over budget by \$200,000 due to the re-assessment of the Kelly Lake Wastewater Treatment Plant.
  6. Revenues in the division were under budget by \$240,000 primarily in the meter shop and other miscellaneous recoveries not recognized.

- Distribution and Collection was under budget by \$925,000 on budgeted net expenditures of \$11.6 million;
  1. Salaries and benefits were under budget by \$1.7 million resulting primarily from permanent and casual vacancies. The department was unable to fill vacancies due in part to Covid-19 combined with difficulty in recruiting licensed operators. As a result, the department was not able to enhance the preventative maintenance program.
  2. Purchased services and materials were over budget by \$775,000. There was a backlog in service cut repairs from 2019, which resulted in overages in road restoration costs of \$1.7 M. Offsetting this were savings in linear repairs contract services of \$925,000 as the majority of emergency repairs have been performed with City crews.
- Infrastructure Capital Planning and Business Improvement sections reflected savings in salaries and benefits of \$620,000 due to unfilled vacancies and illness. These vacancies will cause a delay in implementing some Master Plan recommendations.
- In summary, there was a net under expenditure of \$450,000 in Water and Wastewater Services for 2020. Water had an under expenditure of \$1,668,000 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 \$1,218,000 which was funded by a contribution from the Capital Financing Reserve Fund- Wastewater in accordance with the By-Law.

## **Summary**

The City's 2020 net year end surplus was \$9.8 million. This surplus is contributed equally to the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General, in accordance with the Reserves and Reserve Funds By-Law.