

March 2022 Operating Budget Variance Report

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Report Summary

This report provides information regarding a variance analysis completed based on the City's first quarter results (January to March 31, 2022). Staff have identified areas where material year-end variances in the operating budget may occur.

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

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan.

Financial Implications

There are no financial implications associated with this report.

Background

The purpose of this report is to provide the Finance and Administration Committee with a preliminary overview of potential year-end variances. The monitoring and reporting of variances have been conducted in accordance with the Operating Budget Policy. The March variance report reflects expenditures and revenues for the first three months of the year. In many areas, only three months of data is not sufficient to identify potential variances; however, in other areas, there may have been significant factors identified that may result in year-end variances.

A more detailed projection will be undertaken in the summer based on the expenditures and revenues realized from January to June 2022. During this process, each department will be requested to project a year-end value for each account. Based on this information, a corporate year-end projection will be made. The Finance and Administration Committee will receive this report in September 2022.

Variances

In accordance with the Operating Budget Policy approved by Council, the following explanations relate to

areas where a potential variance of greater than \$200,000 may occur within a division or section, or areas that Finance is monitoring closely:

Taxation Revenue

The first 2022 supplementary tax roll has not yet been received and therefore staff are unable to forecast the potential variance. In 2021, the City received \$2.8 million in supplement taxation, approximately \$303,000 above the budgeted amount. This is an area where the potential for a variance exists, therefore staff will monitor and provide an up to date forecast for the June 2022 Variance Report when more information becomes available.

Environmental Services

Environmental Services is anticipating a \$1.2 million net under expenditure due to an increase in Blue Box Program funding and a rebounding/increasing market for the sale of recyclable materials. A slight decrease in tipping fee revenues is offsetting the aforementioned revenues.

Leisure Services

Leisure is anticipating a net over expenditure of \$590,000 by year end. This is due to a loss of user fee and advertising revenues for arenas, pools, and fitness centers in the amount of \$1.46 million. It is anticipated to achieve pre-pandemic facility usage levels by the third quarter of 2022. Offsetting the shortfall in revenues is an estimated operating and maintenance expense under expenditure of \$870,000 in part-time salaries, utilities and repairs and maintenance.

Fire Services

Fire Services is anticipating an over expenditure of \$560,000 primarily in overtime costs due to staffing requirements, training, and on-going absences (including sick time, WSIB, vacation, etc.).

Roads Winter Control Operations

Roads winter control is anticipating an over expenditure of \$1.2 million by year end based on financial results for the period ending April 30, 2022. This is largely due to a variety of extreme weather conditions causing an increased need for plowing and an increase in road deterioration requiring increased pothole patching activities. In accordance with the Reserve and Reserve Funds By-law, any roads winter control over expenditures shall be funded from the Roads Winter Control Reserve Fund.

Water Wastewater Services

Water Wastewater Services is projecting an overall under expenditure of \$665,000. Treatment and Compliance is projecting an under expenditure of \$600,000 on budgeted expenditures of \$29.6 million:

- Energy costs are trending to be under budget by \$1.0 million, largely resulting from the energy saving initiative at the Kelly Lake Wastewater Treatment Plant.
- Chemical costs are projected to be over budget by \$400,000 due primarily to price increases and incremental quantities used.

Distribution and Collection is projected to be over budget by \$400,000 on budgeted net expenditures of \$12.25 million:

- Salaries and benefits are projected to be under budget by \$500,000 resulting primarily from permanent and casual vacancies. The department is approaching full complement by May 2022.
- Purchased services and materials are projected to be over budget by \$700,000 due primarily to anticipated overages in road restoration costs and use of external contractors to repair watermain breaks. There were 64 watermain breaks during the first quarter of 2022 with several large watermain repairs contracted out. This compares to an average of 31 over the same period during the previous three years. It is anticipated that, for the remainder of the year, more breaks will be repaired by staff as the complement increases.

Infrastructure Capital Planning and Business Improvement sections are projecting savings in salaries and benefits of \$465,000 due to unfilled vacancies and illness. Although some progress has been made in hiring contract staff, these vacancies will cause a delay in implementing some Master Plan recommendations and business improvement reviews.

At year end, any net under expenditures will be contributed to the respective Capital Financing Reserve Fund

in accordance with the Reserves and Reserve Funds By-Law, while any net over expenditures will be funded by a contribution from the Capital Financing Reserve Fund in accordance with the by-law.

Covid-19

Covid-19 continues to be a factor in daily operations. In addition to extra costs for enhanced safety and cleaning measures, the City is also experiencing reduced user fee revenue as many services have experienced periods of closures or reduced utilization. Some Provincial funding has been announced to help offset these added pressures however not to the extent that the City realized in 2020 and 2021. It is difficult to determine the overall impact that Covid-19 will have on 2022 services as this largely depends on provincial guidelines. The City will continue to follow the lead of the Province, and ensure that services are available to citizens when it is safe to do so.

Covid-19 Vaccination

The City continues to be an active partner in Public Health Sudbury and Districts' efforts to vaccinate the community. This is a large undertaking with significant financial requirements. It is anticipated that the cost to vaccinate the community will continue to be funded from the Province. We have received payment in full for all vaccination costs to date from Public Health Sudbury and District and do not anticipate budget variances for this service activity.

Fuel Prices

Fuel prices in Canada began to increase in December 2021 with prices exacerbated after Russia launched a military invasion of Ukraine on February 24, 2022. It is estimated that rising fuel prices could lead to a corporate-wide over expenditure of \$1.5 million based on trending rates for City fleet.

Furthermore, the rising cost of fuel will impact purchased/contract services with operational contracts that include a fuel price adjustment clause. This system is designed to adjust contractual rates for the potential volatility in fuel prices to achieve best value at the time of contract tender.

Debt Repayment

As detailed in the "Debenture 2022" report presented to City Council on March 8, 2022, the City has issued a 25-year debenture in the amount of \$103 million which was priced and sold on March 7, 2022. The payment of the first coupon and the accrual for the remainder of 2022 requires an expenditure of \$2.8 million. The 2022 budget provides \$1.5 million leaving a short fall of \$1.3, million which will be funded from the Capital Financing Reserve Fund-General.

Summary

This has been a preliminary review of the revenues and expenditures for the first three months of 2022. It is still too early to provide an accurate year-end projection. A more comprehensive review will take place after the June 2022 month end and Committee will be presented with a corporate year-end projection in September. Regular reports will be prepared for Committee throughout 2022.