

2022 Operating Budget Variance Report

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Report Summary

This report provides a variance analysis based on the City's second quarter results (January to June 30, 2022). The projected deficit for 2022 is approximately \$300,000.

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 Council with an overview of year-end variances in accordance with the Operating Budget Policy. In the last forecast, provided in July, staff identified areas where material year-end variances may occur. The June variance report reflects expenditures and revenues for the first half of the year, as well as anticipated expenditures and revenues to the end of the year.

Appendix 1 reflects the annual net budget, projected year-end position and variance for each area. 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:

Variance Explanations

1) Legal and Clerks Services

This area is reflecting an estimated net over expenditure of \$360,000 as follows:

- This is directly related to a shortfall in revenues due to the delay in the implementation of the Red Light Camera Program (this is offset for the corporation as a whole with an under expenditure in

Infrastructure Capital Planning for the cost associated with the program). The Red Light Camera Program is estimated to be running by the third quarter of 2022.

2) Security, By-Law and Parking

This area is reflecting an anticipated net over expenditure of \$420,000 as follows:

- A net over expenditure of \$130,000 in Animal Control. This is due to:
 - A shortfall in revenue for redemption fees and canine licenses of \$100,000.
 - An over expenditure in veterinarian services of \$30,000 due to an increase in animal population at the shelter and services required.
- A net over expenditure of \$290,000 in Security and By-Law. This is due to:
 - A shortfall in revenue for parking fines and fees due to lower than anticipated downtown parking utilization.

3) Human Resources & Organizational Development

This area is reflecting an anticipated net over expenditure of \$520,000 as follows:

- An over expenditure in early retirement pensioner expenses of \$590,000.
 - This expected over expenditure is due to contractual obligations related to benefit rate increases for retirees over the past number of years.
- An over expenditure in legal counsel expense of \$110,000.
 - Expenditures in legal fees were over budget due to increased costs associated with labour relations and employment matters, individual employment matters, and costs associated with grievance mediation and arbitration.
- These are offset by an under expenditure in salaries and benefits due to vacancies throughout the year.

4) Finance, Assets & Fleet

This area is reflecting an anticipated net over expenditure of \$510,000 as follows:

- Financial Services is reflecting a net over expenditure of \$690,000 due to:
 - An over expenditure of \$490,000 for professional services related to MPAC appeals. This has been offset by an increase taxation revenue which is higher than the costs of the appraiser, quantitative surveyor, and legal fees.
 - An over expenditure of \$200,000 related to vacation accrual payments.
- Fleet Services is reflecting a net over expenditure of \$190,000 due to increasing transit bus repair costs in material and servicing.
- Asset Services is reflecting a net under expenditure of \$370,000 as follows:
 - An under expenditure of \$280,000 in energy costs due to decreased utilization and lower than anticipated hydro and natural gas charges.
 - An under expenditure of \$120,000 in salary and wages due to vacancies.
 - Minor over expenditures of \$20,000 in various materials accounts.

5) Social Services

This area is reflecting an anticipated net under expenditure of \$1.0 million as follows:

- An under expenditure of \$1.4 million in salaries and benefits due to staff absences and vacancies due to attrition, a reduction in caseloads, and closure of Employment Services.
- An under expenditure of \$470,000 in other administrative expenses also due to the reduction of caseloads and closure of Employment Services.
- An over expenditure of \$1.1 million for the Supervised Consumption Site as no external funding has been secured to date.
- An under expenditure of \$310,000 related to the Transitional Housing program due to staffing challenges and a reduction in caseload.

6) Leisure & Cemetery Services

This area is reflecting an anticipated net over expenditure of \$760,000 as follows:

- A shortfall in revenues in the amount of \$1.3 million due to the following:

- Loss in user fees, advertising, and concession revenue because of suspended programs and closed facilities in Q1.
 - Program participation has not achieved pre-pandemic levels as of the end of Q2.
- Offsetting the shortfall in revenues is an estimated operating and maintenance under expenditure of \$550,000 resulting from:
 - Increased fuel costs offset by reduced part-time salaries, supplies/materials and maintenance costs.
 - Reduced part-time salaries are a result of reduced staffing levels in Q1 due to suspended programs and closed facilities in Q1.
 - Reduced wages relating to a shortage of summer students and seasonal employees due to recruitment challenges for spring and summer parks and recreation activities.

7) Infrastructure Capital Planning

This area is reflecting an anticipated net under expenditure of \$320,000 as follows:

- The surplus is largely due to the delay in implementation of the Red Light Camera Program as well as some staff vacancies. As previously mentioned, this is somewhat offset by reduced revenues reflected under Legal and Clerks Services

8) Linear Infrastructure Maintenance

This area is reflecting an anticipated net over expenditure of \$1.3 million as follows:

- 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 depending on overall corporate financial position.

9) Environmental Services

This area is reflecting an anticipated net under expenditure of \$1.8 million as follows:

- A surplus in Blue Box Program funding of \$1.1 million.
- A surplus in the sale of recyclable materials of \$540,000. Markets for blue box materials have increased very significantly. These high market values are not expected to be sustainable over the long term.
- A surplus in tipping fee revenue of \$500,000 from the removal of Covid-19 restrictions on business operations.
- An over expenditure for fuel related adjustments of \$250,000 for the landfill operation contract due to higher fuel prices.

10) Fire Services

This area is reflecting an anticipated net over expenditure of \$670,000 as follows:

- An over expenditure of \$570,000 in overtime costs due to staffing requirements, training, and on-going absences (including sick time, WSIB, vacation, etc).
- An over expenditure in energy costs, primarily in the areas of diesel fuel and natural gas, in the amount of \$100,000.

11) Outside Board - Libraries

This area is reflecting an anticipated net under expenditure of \$600,000 as follows:

- The surplus is primarily the result of reduced hours of operation in response to the ongoing Covid-19 pandemic. All Library/CSC locations continued to operate under a modified pandemic schedule in the first quarter of 2022. Hours of operation have been gradually restored through 2022 in conjunction with the Library's Pandemic Exit Plan. Reduced staffing costs, facilities costs, and consumables are all contributing to the overall surplus.
- In accordance with the Reserve and Reserve Funds By-law, any surplus for Libraries may contribute to the Library/Citizen Services Reserve Fund, only if such contribution will not put the City in a deficit position or increase an existing deficit.

Water Wastewater Services

- Treatment and Compliance is projecting a net over expenditure of \$320,000 on budgeted expenditures of \$29.6 million;
 - Energy costs are trending to be under budget by \$730,000, largely resulting from the energy saving initiative at the Kelly Lake Wastewater Treatment Plant. There were also projected savings in energy in water treatment due in part to several initiatives.
 - Material costs are projected to be over budget by \$520,000 with the majority of this overage due to chemical price increases and incremental quantities used in the treatment processes.
 - Purchased contract services will be over budget by \$400,000 due to ongoing repairs and maintenance in the numerous facilities.
- Distribution and Collection is projecting a net over expenditure of \$340,000 on budgeted net expenditures of \$12.3 million;
 - Salaries and benefits are projected to be under budget by \$470,000 resulting primarily from permanent and casual vacancies during the first part of the year. The department achieved full complement in May.
 - Purchased services and materials are projected to be over budget \$480,000 due primarily to anticipated overages in road restoration costs and costs to repair watermain breaks. There were 84 watermain breaks during the first six months with several large watermain repairs contracted out. This compares to an average of 47 over the same period during the previous three years.
 - The unanticipated rise in fuel costs has resulted in additional costs of \$200,000 to the operation of the department's vehicles.
- Infrastructure Capital Planning and Business Improvement sections are projecting a net under expenditure in salaries and benefits of \$300,000 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.
- User fees are anticipated to have a net under expenditure of \$1.5 million dollars. Data from our business partner, Greater Sudbury Utilities, is projecting that consumption will be 12.8 million CuM on a budget of 13.2 million CuM. Staff will continue to monitor the consumption and will re-assess the projection for the September variance report.
- Water is projecting a net over expenditure of \$640,000 and Wastewater is projecting a net over expenditure of \$1.3 million. These will be funded by a contribution from the respective Capital Financing Reserve Funds for Water & Wastewater in accordance with the Reserves and Reserve Funds By-Law.

Covid-19

Covid-19 continues to be a factor in daily operations. With the continued presence of Covid-19 in our community, absences due to illness or isolation requirements have been higher in the first half of 2022 than any other period since the pandemic began. This impacts certain municipal services more than others. Services such as Long Term Care, Emergency Medical Services, Fire and Transit where employees work in shift rotations and in close proximity to one another or the public.

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 and associated costs as this largely depends on provincial guidelines.

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 by the Province.

Fuel Prices

Fuel prices in Canada began to increase in December 2021 with price increases 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 and natural gas used in facilities. Estimates for 2022 fuel expenditures are included within the operating department projections.

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.

Summary

As per the attached chart, the City is projecting a net year-end deficit of \$300,000. Any deficit related to winter control activities can be funded from the Winter Control Reserve so long as the contribution from reserve does not place the City in a surplus position, in accordance with the Reserve and Reserve Fund by-law. Furthermore, any surplus realized in Libraries may contribute to the Library/Citizen Services Reserve Fund, only if such contribution will not put the City in a deficit position or increase an existing deficit.