2023 Year-End Operating Budget Variance Report

Presented To:	Finance and Administration Committee
Meeting Date:	June 18, 2024
Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services

Report Summary

This report provides information regarding the City's year-end financial position and requests a change in the frequency of variance reporting from quarterly to semi-annually.

Resolution

THAT the City of Greater Sudbury directs staff to report on operating budget variances twice per year based on June month end and December year end and that the associated policies be updated as outlined in the report entitled "2023 Year-End Operating Budget Variance Report" from the General Manager of Corporate Services, presented at the Finance and Administration Committee on June 18, 2024.

Relationship to the Strategic Plan, Health Impact Assessment and Climate Action Plans

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

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 and resulting service outcomes versus planned 2023 results. Monitoring and reporting variances occurred in accordance with the Operating Budget Policy. Council receives a variance report on a regular basis throughout the year. This report is an update from the year-end forecast provided to Council in November 2023 and the projections included within the 2024-2025 budget binder.

Executive Summary

The 2023 year-end surplus is $3.1 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 also made the following contributions to Reserves and Reserve Funds:

Sinking Fund Contribution (Additional)	$ 3,000,000
LED Streetlight Conversion Early Repayment	$ 1,783,363
WSIB Reserve Fund	$ 480,451
Library & Citizen Services Reserve Fund	$ 273,222
Capital Financing Reserve Fund – EMS	$ 191,859
Organizational Development Reserve for Training and Professional Development	$ 180,404
Cemeteries Reserve Fund	$ 39,000
Total Contributions to Reserves and Reserve Funds	**$ 5,948,300**

Attached is a schedule (Appendix 1) 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 and 2023 Service Performance

1) Revenue Summary
This area realized greater than anticipated revenue of $1.9 million relating as follows:
- Increase in supplemental taxation of $700,000.
- Increase in payment-in-lieu of taxes revenue of $451,000 due to several factors, including increased enrollment at local colleges and changes to Federal and Provincial properties.
- Decrease in tax write-offs of $750,000 due to successful assessment appeals.

2) Other Revenues and Expenses
This area is reflecting a net under expenditure of $9.6 million as follows:
- An increase in investment earnings of $15.4 million due to a higher than expected portfolio value and higher interest rates.
- Planned cost avoidance from vacancy management worth $3.3 million, with actual savings of $2.9 million presented within the salary and benefits budgets of each division.
- An increase in contributions to the sinking funds of $3 million.

3) Office of the CAO
This area is reflecting a net over expenditure of $318,000 as follows:
- An over expenditure of $220,000 in Communications due to training of new staff, vacation coverage, and increased part-time hours to meet service levels of 80 per cent of calls answered within 20 seconds in 311.
- An over expenditure of $71,000 in the CAO's office for the newly created Data, Analytics and Change division with a corresponding reduced expenditures in the Corporate Services General Manager's office.

4) Legal and Clerks Services
This area is reflecting a net under expenditure of $1.1 million as follows:
- An under expenditure in salaries and benefits of $741,000 due to vacancies throughout the year. The division continues to see difficulty in finding candidates that meet the hard qualifications of vacant roles.

- A surplus in POA revenue of $250,000 due to an increase in the revenue for the Red Light Camera Program.

5) Security, By-Law and Parking
This area is reflecting a net over expenditure of $581,000 as follows:

- An overall net over expenditure of $138,000 in Parking due to a decrease in parking revenue, likely resulting from changes in work patterns among downtown employers and ongoing remote work arrangements.
- An overall net over expenditure of $432,000 in Animal Control due to:
    - Lower than anticipated canine license sales of $102,000.
    - An increased reliance on emergency veterinarian services resulted in additional costs of $143,000 due to a lack of available services.
    - Required equipment replacements and health and safety repairs resulted in additional costs of $92,000.
    - Additional salary and benefit costs of temporary staff to meet the increased care required for a higher number of animals at the shelter.

6) Human Resources and Organizational Development
This area is reflecting a net over expenditure of $3.5 million as follows:

- Over expenditure of $2.6 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 of $480,000 for self-insured WSIB claims. While these costs are typically funded through the WSIB reserve fund, they are funded from operations when the overall corporate position is in a surplus as per the reserve/reserve fund by-law.
- Over expenditure for retirement allowances of $332,000 due to an increase in rates for retiring allowances and retiree benefits.
- Over expenditure in legal counsel expense of $113,000 due to increased costs associated with various labour relations and employment matters, including interest arbitrations, individual employment matters, and costs associated with grievance mediation and arbitration. Overall, there was more litigation activity than expected.

7) Assets and Fleet
This area is reflecting a net over expenditure of $426,000 as follows:

- A shortfall in lease revenues at 199 Larch Street of $361,000 due to reduced office space utilization.
- An over expenditure in building maintenance of $419,000 due to HVAC, electrical and plumbing repairs required for service continuity.
- An over expenditure of $171,000 in vehicle servicing costs.
- An under expenditure in energy costs of $505,000 due to reduced electricity consumption.

8) Economic Development
This area is reflecting a net over expenditure of $361,000 as follows:

- An over expenditure in marketing of $55,000 and an over expenditure in business support of $25,000 primarily related to PDAC promotional efforts for investment attraction as well as participation in the 2023 OECD Mining Regions Conference in Australia as part of our role as the 2024 conference host.
- An over expenditure in part-time wages for business development of $68,000 due to the impact of job evaluations.
- An over expenditure in business support of $60,000 due to additional research related to critical minerals sector.
- An over expenditure in marketing of $53,000 due to additional research related to investment attraction and employment land strategy implementation.

9) Long-Term Care
This area is reflecting a net over expenditure of $1.2 million as follows:

- An increase in food prices, resulting in higher costs of $406,000.

- An increase in staffing cost of $394,000 due to COVID-19 paid leave days in the first quarter of 2023. The additional paid sick days enhanced income protections for all staff who were unable to work due to reasons associated with COVID-19.
- Increase in unfunded operational and staffing costs of $433,000 for infection prevention and control (IPAC) procedures continuation after the pandemic. Infection protocols modernized with the pandemic approach for long-term care homes, however provincial COVID-19 containment funding ended on March 31, 2023.

10) Social Services
This area is reflecting a net under expenditure of $1.2 million as follows:
- An under expenditure of $1 million in salaries and benefits due to staff absences, retirements, and difficulty recruiting in the current labour market environment. Staff turnover has increased due to short-term disability claims, staff leaving for other roles (both internal and external) and an elevated level of retirements. Increased caseload sizes and reduced staffing levels impact the turnaround time to complete applications and impacts action requests from clients.
- An overall deficit of $200,000 in Homelessness Initiatives and Support and Outreach programs due to an under expenditure in the Supervised Consumption Site for the year.

11) Leisure and Cemetery Services
This area is reflecting a net over expenditure of $1.3 million as follows:
- A shortfall in revenues of $138,000 mainly due to:
  - Lower user fee revenues in arenas, community halls, fitness centres, playfields and recreation programming which have not returned to pre-pandemic utilization levels offset by an increase in revenue for pools, licensing and lease revenue, advertising and grants.
  - Delayed opening of campgrounds due to spring flooding.
- An over expenditure of $1.2 million resulting from:
  - Additional maintenance of $1 million in playgrounds and parks due to increased spring runoff as well as unscheduled maintenance on HVAC, refrigeration units and major repairs relating to ageing plants, boilers, and other equipment in pools and arenas. Further, major renovations were done in Park Depots.
  - Major ground maintenance work undertaken at various parks and playgrounds resulting in an over expenditure of $727,000. This is attributed to severe weather events including flooding as well as work required on parks and playgrounds needed following reduced service levels and closures during COVID-19 in previous years (playground resurfacing for example).
  - Contractual rate increases during the year in Parks Services fleet rental costs resulting in an over expenditure of $298,000.
  - An under expenditure of $171,000 due to the discontinuation of services by recipient and/or grant ineligibility.
  - Savings in energy costs $702,000 mainly related to arenas, pools, play fields, community & fitness centres, ski hills and public spaces.

12) Transit
This area is reflecting a net under expenditure of $576,000 as follows:
- A net surplus in revenues of $290,000 primarily due to increased ridership. To align service with ridership, there were additional costs associated with bus operators, diesel fuel and maintenance; increases were done within budget.
- An under expenditure in operating and maintenance expenses of $286,000 primarily due to lower diesel fuel rates.

13) Infrastructure Capital Planning
This area is reflecting a net under expenditure of $328,000 as follows:
- Delay in implementation of the Red Light Camera Program as well as some staff vacancies.

14) Linear Infrastructure Services
This area is reflecting a net over expenditure of $5.2 million. This is a result of the following:

- An over expenditure in the summer maintenance program of $1.8 million primarily due to increased fuel costs, emergency culvert and storm sewer repair and asphalt patching.
- An over expenditure in the winter maintenance program of $2.1 million due to increased costs in asphalt patching, roadway plowing, winter ditching and spring cleanup. These over expenditures were attributable to above average snow accumulation (in the first four months of 2023), on-going precipitation, fluctuating weather conditions, a rapid spring thaw and increased contract costs for street sweeping. The majority of the variance is from the period of January to April 2023.
- An over expenditure of $1.3 million in streetlighting increased the division's deficit from $3.9 million to $5.2 million. This variance is due to an advanced repayment of $1.7 million for the remaining internal borrowing for the LED streetlight conversion project. This additional contribution completes the repayment of the borrowing two years earlier than expected.

15) Environmental Services
This area is reflecting a net under expenditure of $1.6 million because of the following:
- An under expenditure in the collection contract of $758,000. Contract pricing was updated for the 2024 budget.
- A surplus in Blue Box Program funding and miscellaneous revenues of $509,000.
- A surplus in the processing of divertible material at the landfill and waste diversion sites, and increased tipping fee revenues totaling $485,000.
- A deficit in the sale of recyclable materials of $360,000 as markets for blue box materials were lower than anticipated throughout 2023.
- An under expenditure in salaries and benefits of $143,000 due to vacancies.

16) Planning and Development
This area is reflecting a net over expenditure of $384,000 as follows:
- Streamline Development Projects including e-permitting, planning studies, improvements to development approval applications processes, and digitizing historical data to support the development approval process. These projects are being delivered as planned and are funded partially from the tax levy and reserve fund, although a draw from reserves in 2023 did not occur so as to avoid inflating the reported year-end surplus. Overall, these project costs continue to be within expected levels.

17) Fire Services
This area is reflecting a net over expenditure of $742,000 as follows:
- An over expenditure of $636,000 in salaries and benefits including overtime costs due to staffing requirements, training, and on-going absences (including sick time, WSIB, vacation, retirements, etc.)
- An over expenditure of $106,000 in other areas such as training equipment, fleet and equipment repairs and maintenance, and other supplies required to provide fire services.

Non-Tax Levy Supported Areas
In addition to the operating variances reported above, there are areas which are not funded by the municipal tax levy. 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	Difference in Contribution to (from) Reserve
Parking Services	$31,529	$0	$31,529
Building Services	($1,354,727)	$564,946	$1,919,673
Water/Wastewater	$0	($366,787)	($366,787)
Regional Business Centre	($91,452)	($61,519)	$29,933

Parking Services
Parking Services is experiencing a significant loss in revenue as a result of aftereffects of COVID-19 and changes in work patterns that reflect remote work arrangements. This resulted in no contribution to reserve for 2023.

Building Services
Building Services experienced a net under expenditure of $1.9 million. In accordance with provincial regulations under the Ontario Building Code Act, Building Services operates as an enterprise model without tax levy impact. Revenues generated from building permits are to be used to support the Building Services department. Therefore, any surplus in building permit revenue is funded by a draw from Building Services Revenue Stabilization Reserve. In 2023, the Building Services budget included a draw from reserve of $1.4 million to balance the budget, however an increase in building permit revenues resulted in a contribution to reserve. There were no impacts on service levels arising from these variances.

Water Wastewater Services
Revenues were under budget by $390,000 on a total budget of $93.6 million.

- User fee revenues were under budget by $1.2 million as actual billed consumption was 12.9 million cubic meters while the budget for 2023 was 13.2 million cubic meters. Also, the 4.8% rate increase did not commence until March when the bylaw was passed, resulting in two months of lost incremental revenue.
- Bulk water and manual meter read revenues related to the AMI project were over budget by $580,000.
- Hauled liquid waste revenues were over budget by $230,000.

Treatment and Compliance was over budget by $2.5 million on budgeted expenditures of $30.9 million due to the following:

- Salaries and benefits were over budget by $240,000 due to short term vacancies and a challenging season of heavy rain during spring, combined with rapid snow melt, requiring overtime.
- Purchased services were over budget by $1.3 million due to increased infrastructure repairs and lack of manpower to perform the repairs required.
- Materials were over budget by $1.9 million primarily from chemical costs that were over budget by $450,000, attributed to:

    - Price increases resulting from inflation and availability of required chemicals.
    - Additional quantities used to treat infiltration from heavy rain and rapid snow melt. Additionally, operating maintenance materials were over budget by $900,000 due to equipment repairs and replacements on ageing infrastructure.

- Energy costs were under budget by $1.2 million due to the energy savings from the Industrial Conservation Initiative.

Distribution and Collection was under budget by $1.8 million on budgeted net expenditures of $13 million due to the following:

- Salaries and benefits were under budget by $1.4 million resulting primarily from permanent and casual vacancies. The department was unable to fill vacancies due in part to difficulty in recruiting licensed operators. These vacancies resulted in less routine maintenance being completed.
- Purchased services and materials were under budget by $400,000, due primarily to less watermain breaks which required contract services to repair them.
- Infrastructure Capital Planning and Business Improvement was under budget by $670,000 due primarily to savings in salaries and benefits of $620,000 because of vacancies and illnesses. These vacancies will cause a delay in implementing some Master Plan recommendations.

In summary, there was a net over expenditure of $365,000 in Water and Wastewater Services for 2023. Water had an under expenditure of $1.1 million 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 $1.5 million which was funded by a contribution from the Capital Financing Reserve Fund - Wastewater in accordance with the Reserves and Reserve Funds By-Law.

Vacancy Management

The Corporate Vacancy Allowance Policy governs the management and administration for vacancy management to reflect compensation savings resulting from employee turnover throughout the calendar year. The Corporate Vacancy Allowance Policy applies to permanent and long-term contract employees within all City departments, except for the following:

- Greater Sudbury Police Services (GSPS)
- Water/Wastewater
- Services that operate on a 24/7 basis – This includes areas such as Pioneer Manor, Fire, Paramedic, Emergency Management Services. However, this policy does apply to the administration of these services.

It was expected that staff manage vacancies in 2023 in a way that reduced budgeted salary and benefit costs by roughly $3.3 million across the organization. The actual vacancy management savings realized was $2.9 million in 2023.

Vacancy management is difficult to address on a corporate-wide level because it relies on unpredictable variables such as employee absence and retirements in services that can accept a temporary reduction in staff capacity. While efforts were made to minimize service impacts, managing vacancies in this way can reduce responsiveness and place additional strain on staff. A better practice is to identify specific service adjustments and incorporate them into the budget so net costs are reduced by the value of vacancy management savings (i.e. $3.3M).

Summary

The City’s 2023 net year-end surplus was $3.1 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.