

For Information Only

2020 Operating Budget Variance Report - October

Presented To: Special City Council

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Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides the Finance and Administration Committee with a forecast of the City's year-end position based on revenues and expenditures to the end of October 2020. The year-end position includes approximately \$4.9 million available to offset known 2021 budget pressures.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

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Manager of Financial Planning & Budgeting
Digitally Signed Jan 13, 21

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets and Fleet
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Financial Implications

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Recommended by the Department

Kevin Fowke
General Manager of Corporate Services
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Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
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Report Title
2020 Year-end Operating Budget Variance Report - October

Resolution		Relationship to the Strategic Plan/Health Impact Assessment	
For information only.		This report refers to operational matters.	
	Resolution Continued	X	Background Attached

Report Summary	Financial Implications
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Report Prepared By	Division Review
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Recommended By the Department	Financial Implications
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Recommended by the C.A.O.
<p><i>Ed Archer</i></p> <p>Ed Archer Chief Administrative Officer</p>

2020 Year End Operating Budget Variance Report

Executive Summary

This report provides a projection of the corporation's year-end financial results. With the decisions Council took throughout the year to adjust service levels and avoid costs wherever possible, and with support from senior governments, the corporation will avoid a 2020 deficit.

After accounting for \$12.7M of Safe Restart funding (\$9.2M for the Municipal stream and \$3.5M for the Transit stream) received from the federal and provincial governments, there is approximately \$4.9M available to offset known 2021 budget pressures. The projected surplus results from extraordinary service level adjustments and cost containment measures taken by City Council that would not be expected to recur in 2021. Similarly, the Safe Restart funding received from senior governments helped offset extraordinary additional costs incurred in 2020 as a result of the corporation's COVID-19 response. Some of these costs are anticipated to continue in 2021.

As discussed during deliberations about the work underway to prepare the 2021 Budget, these surplus funds may be available to offset one-time, extraordinary COVID-19 related costs next year.

For example, on December 8th, Council approved two resolutions to approve funding from the Capital Holding Account and the allocation of the 2020 Special Capital Levy to offset one-time operating and COVID-19 pressures, if required.

Background

The purpose of this report is to provide Council with an overview of year-end variances in accordance with the Operating Budget Policy. The last variance report, based on August month-end identified areas where material year-end variances may occur and produce a potential surplus of \$3.9 million. This report updates Council on actions taken and the implications of those actions.

Appendix A provides a schedule that reflects the annual net operating 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 is anticipated/resulted within a division or section.

Variance Explanations

1) Revenue Summary

The first line of the report in Appendix A reflects general revenue that includes items such as the taxation levy, revenues in lieu of taxes, provincial grants (such as OMPF) as well as tax write-offs, tax grants and rebates. The forecast is for these items to finish the year approximately \$425,000 below planned levels. This is due largely to decreased supplemental taxation revenues offset somewhat with an increase in payment in-lieu taxation revenue resulting from increased assessments of municipal properties.

Delays in MPAC's inspections of properties as a result of COVID-19 has affected the information received with respect to supplemental taxation. Tax write-offs may be an area of concern as they may result in a negative financial impact. At this time, property tax payments arrived as expected. The organization is not experiencing an issue with tax collection. Staff continue to analyze these situations as more updated information is received.

2) Other Revenues and Expenses

This reporting line includes the following items:

- Other revenues – includes slot revenue, investment income, interest on overdue tax accounts etc.
- Large Projects
- COVID-19 Cost Centre

This area is reflecting a net under expenditure of \$2.0 million as follows:

- Decrease in interest revenue on all overdue tax accounts of \$595,000.
- Increase in investment earnings of \$2.5 million.
- Decrease in gross Municipal Accommodation Tax of \$670,000.
- Decrease in slot revenue of \$1.5 million.
- Planned salary gapping of \$1 million, although the actual savings are presented within each division. Staff expect the actual salary gapping result to be greater than the revised target of \$2.5 million.
- Lower than anticipated debt repayments of \$1 million.
- Over expenditures related to the Junction project totaling \$170,000 primarily due to salaries and benefits.
- Expenditures directly related to the COVID-19 pandemic of \$15.7 million. This includes a contribution to reserve for the Safe Restart – Transit funding as noted below.
- Additional revenues related to the COVID-19 pandemic of \$17.6 million in the form of Federal and Provincial grants. The additional revenues act as a flow through such as Pandemic Pay and enhanced Social Services programs. These revenues also include Phase 1 of the Safe Restart Agreement.

It should also be noted that the expenditures directly related to the COVID-19 pandemic, referred to above, include both incremental and non-incremental costs. This provides an overall estimate of the expenditures required to address the pandemic which includes line items such as staff time, personal protective equipment and increased contract services, such as additional cleaning costs.

3) Office of the CAO

This department includes the following divisions:

- Strategic Initiatives
- Communications and Community Engagement
- Citizen Services (Libraries/Museums)

This area is reflecting a net under expenditure of \$1.2 million as follows:

- Decreased revenue for Library Services totaling \$85,000.
- Under expenditure in salaries and benefits of \$1.3 million due to vacancies and redeployed personnel.

4) Security, By-law and Parking

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

- Decreased parking user fees of \$1.1 million.
- Under expenditure in the contribution to the Parking Improvements Reserve Fund of \$800,000 because of the reduced revenues.
- Decreased user fee and licensing revenues totaling \$700,000.

5) Information Technology

This area is reflecting a net under expenditure of \$285,000 as follows:

- Under expenditure in salaries and benefits of \$135,000 due to vacancies and costs allocated to the COVID cost centre.
- Under expenditure in equipment purchases of \$135,000 as these costs were allocated to the COVID cost centre.

6) Human Resources and Organizational Development

This area is reflecting a net over expenditure of \$815,000 as follows:

- Over expenditure of legal services related to labour arbitrations totaling \$245,000.
- Over expenditure of early retirement fringes and allowances totaling \$665,000.
- Under expenditure in job evaluation costs totaling \$80,000.

7) Economic Development

This area is reflecting a net under expenditure of \$430,000 as follows:

- Under expenditure in salaries and benefits of \$350,000 due to staff redeployments where the cost is allocated to the COVID cost centre, and salary gapping.
- Under expenditure in grants and transfer payments of \$90,000, with respect to Event Support, as a result of COVID-19.

8) Housing Services & Operations

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

- Housing Services is projecting a net under expenditure of \$800,000.
 - An under expenditure of \$90,000 in salaries and benefits due to vacancies.
 - An under expenditure of \$500,000 in the non-profit program. This under expenditure does not have an impact on service levels.
 - An under expenditure is expected to Housing Operations totaling \$210,000. As the funds for the commercial rent supplement program are based on tenant's subsidies, it is difficult to project exactly how much funding will be required in one year to cover off the difference between what the subsidized tenant pays and the

market rent of the unit in the private sector. A number of variables are considered regarding commercial rent supplement funding. This is a recovery based on 2019 year end results.

- Housing Operations is projecting a net under expenditure of \$225,000
 - Increased revenues are anticipated totaling \$810,000. A significant portion of the increased revenues is a result of loss of subsidy and delays in obtaining eviction orders for arrears and a decline in bad debt write-off. The additional revenue has been utilized to maintain the aging portfolio, explained below.
 - Under expenditures in salaries and benefits are anticipated totaling \$380,000.
 - Over expenditures in maintenance costs are anticipated totaling \$1,120,000. Additional maintenance (plumbing, electrical, life safety and significant repairs) will be completed throughout 2020. These maintenance projects were deferred and were to be complete as funds became available. Also, due to COVID-19, a significant amount of the maintenance expenditures were completed by contractors rather than field staff which has increased the anticipated cost.
 - Under expenditures in energy costs are anticipated totaling \$180,000.

9) Long Term Care – Senior Services

This area is reflecting a net under expenditure of \$410,000 as follows:

- Increased revenues are anticipated totaling \$700,000 in the form of provincial grants, such as additional revenue for High Intensity Needs.
- Increased operating expenditures as a result of the additional funding received in salaries and benefits, materials and contract services.

The majority of additional costs related to the pandemic response are included in the COVID-19 cost centre which is included in Other Revenues & Expenses.

10) Social Services

This area is reflecting a net under expenditure of \$1.2 million as follows:

- Under expenditure in salaries and benefits of \$1.2 million due to vacancies caused by service level reductions. Due to COVID-19, employment programs were suspended, which allowed for staff to be redeployed to Pioneer Manor.

11) Leisure & Cemetery Services

This area is reflecting a net under expenditure of \$880,000 as follows:

- Decreased user fee and licensing revenues totalling \$4.1 million.
- Under expenditure in salaries and benefits of \$3.6 million due to vacancies caused by service level reductions, salary gapping, not hiring summer students, part-time layoffs as well as certain salaries and benefits being allocated to the COVID cost centre.
- Under expenditure in energy costs as a result closed and suspended facilities and adaptations totalling \$1.4 million.

12) Transit Services

This area is reflecting a net over expenditure of \$1.5 million as follows:

- Decreased user fee revenue of \$3.4 million as a result of decreased ridership and the suspension of fares from March 20, 2020 to June 15, 2020.
- Under expenditures in salaries and benefits of \$680,000 due to vacancies.
- Under expenditures in energy costs (primarily fuel) of \$875,000 as a result of adapting service levels.

- Under expenditures in purchased services of \$1.1 million as a result of adapting service levels.
- Increased Transit maintenance is approximately \$640,000 over budget due to the continued maintenance of the City's aging fleet.

13) Infrastructure Capital Planning

This area is reflecting a net under expenditure of \$575,000 resulting as follows:

- An under expenditure in salaries and benefits of \$130,000 due to vacancies.
- Under expenditures as a result of the delayed Red Light Camera Program totaling \$360,000. Delays were due to agreements not yet being finalized with the City of Toronto and the equipment vendor.

14) Engineering Services

This area is reflecting a net under expenditure of \$235,000 as follows:

- Under expenditures in salaries and benefits of \$245,000 due to vacancies.

15) Linear Infrastructure Maintenance

This area is reflecting a net over expenditure of \$320,000 as follows:

- Over expenditure in winter maintenance of \$420,000.
- Under expenditure in summer maintenance of \$100,000.

The winter maintenance deficit was calculated using available financial information up to October 31, 2020. Given recent favourable weather conditions, the estimated winter control deficit could improve by year-end. The year-end position report which will be presented in 2021 will reflect the actual expenditures for 2020.

16) Environmental Services

This area is reflecting a net under expenditure of \$450,000 as follows:

- Lower than anticipated revenues totaling \$215,000.
- Under expenditure in purchased services of \$560,000, primarily waste collection.

17) Planning and Development

This area is reflecting a net under expenditure of \$345,000 as follows:

- Lower than anticipated revenues of \$130,000.
- Under expenditures in salaries and benefits totaling \$365,000 due to vacancies.
- Under expenditure in purchased services and operating expenses totaling \$100,000.

18) Emergency Medical Service

This area is reflecting a net under expenditure of \$970,000 as follows:

- Under expenditure in salaries and benefits and medical supplies as these are being recorded in the COVID-19 cost centre.

19) Fire Services

This area is reflecting a net over expenditure of \$675,000 as follows:

- Over expenditure in salaries and benefits totaling \$675,000 million due to overtime costs caused by absences due to retirements and Workplace Safety Insurance Board claims. Of this, approximately \$400,000 is a direct result of the Val Therese arbitration award.

19) Police Services

This area is reflecting a net over expenditure of \$500,000 as follows:

- Overall, there is a net over expenditure of \$500,000, which is primarily due to unbudgeted COVID-19 expenditures related to PPE, cleaning and decontamination and equipment required for virtual work needs. These costs are not included in the organization's COVID cost centre.
- Other operating accounts with over expenditures are offset by grant funding received for specialized equipment for use in Forensics.
- Revenue losses are forecasted due to reduced paid duty recoveries and record check fees which is somewhat offset by savings in training and professional development and fuel.

Water / Wastewater Services

Water and Wastewater Services is projecting an overall net over expenditure of \$100,000 for 2020.

User fee revenues are projected to be under budget by \$800,000 million with consumption projected at 13.1 million cubic metres on a budget of 13.355 million cubic metres, based upon information supplied by our billing partners at GSU. Commercial consumption has decreased during the COVID pandemic but is being partially offset by increases in residential consumption, as previously assumed. April and May production was down between 6 and 7% over previous years, but June through September showed monthly increases ranging from 1 to 4% over previous years, which supports the improvement in consumption over the summer months.

Infrastructure Capital Planning and Business Improvement sections are projected to be under budget by \$475,000 due to vacancies in long term contract positions dedicated to the Asset Management Task Force that were previously approved by Council, which will result in delays in implementing Master Plan recommendations.

The Treatment and Compliance section is projected to be over budget by \$700,000 due to unbudgeted repairs and maintenance costs at various facilities, additional COVID related salary costs, and a \$200,000 increase in property taxes due to a reassessment of the Kelly Lake Plant.

The Distribution and Collection section is projected to be under budget by \$900,000 due primarily to staffing vacancies and less than expected watermain break repairs which offset additional costs related to service cut repairs.

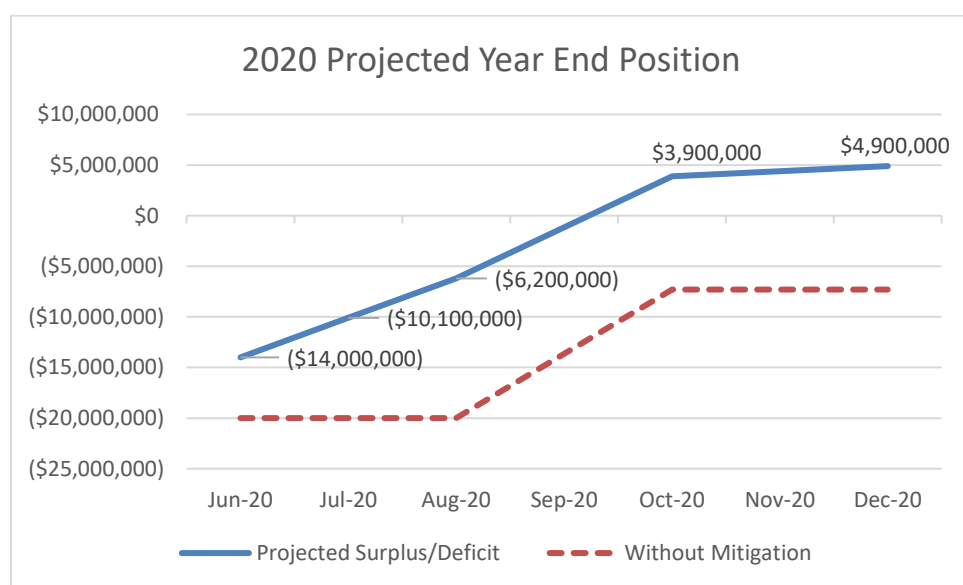
As per the Reserves and Reserve Funds By-Law, any net over or under expenditure will be contributed from or to the appropriate Capital Financing Reserve Fund in accordance with the By-Law.

Additional Information

COVID-19 Impacts

From the start of its virus response, Council reacted quickly and with a clear intent to balance its responsibilities for service provision with its responsibilities to demonstrate good financial stewardship. The corporation incurred additional costs and, at the same time, did not earn planned revenues due to the requirements of its virus response. Without Council's decisions – that is, if service plans did not change from the ones approved in the 2020 Budget – the corporation would have incurred a net deficit by the end of 2020 of approximately \$20M.

The chart below shows the financial effect of Council's decisions over the last eight months. Initial adjustments to services and resource levels, which included some staff layoffs and a decision to increase salary gapping targets, reduced the deficit forecast to approximately \$14M. Sustained service changes and the decision to suspend some traditional summer services further reduced the deficit forecast, such that by August, the year-end position was estimated to be a \$6.2M deficit. Financing options, such as redirecting funds assigned to capital projects that were not yet started, would have allowed the corporation to avoid a deficit at year-end, even without senior government support.



Safe Restart Funding

As stated earlier in the report, the corporation received \$12.7 million from senior levels of government. This funding was in 2 separate streams:

- \$9.2 million – Municipal Stream
- \$3.5 million – Transit Stream

The Municipal stream received is an unconditional grant to address operating pressures and local needs. It is the province's expectation that the municipality will place the excess funding into reserves which can be accessed to support COVID-19 operating costs and pressures that may continue to incur in 2021.

The Transit stream of this funding expires March 31, 2021. Initial projections indicate that of the \$3.5 million received, the organization will be realizing approximately \$1.2 million in 2020 and \$570,000 from January 2021 to March 31. The following table has been prepared to illustrate this information:

Transit Stream	
Funds Received	3,519,280
Less: COVID Impact (April 2020 - September 2020)	602,000
Less: COVID Impact (October - December 2020)	625,500
Contribution to Reserve	2,291,780
Less: COVID Impact (January - March 31 2021)	572,500
Potential Return to Province	1,719,280

This table highlights the potential of returning the difference of what is being realized and what the organization has received. This estimate is approximately \$1.7 million, however analysis and conversations with senior levels of government continue (as it relates to maximizing the full allocation beyond the current March 31st 2021 deadline). Staff are also exploring possible eligibility changes to maximize the organization's ability to realize these funds. These estimates have been included when preparing the projected 2020 year-end position. Staff will return with an update as part of a year-end position report in early 2021

As a result of funding from the Safe Restart Agreement as well as service level mitigation strategies discussed above, the organization will be able to contribute approximately \$4.9 million to a reserve which will be able to be used to offset 2021 impacts. This amount is subject to provincial guidelines and year-end activity and adjustments. The following chart illustrates this:

Salaries & Benefits

Previous reports highlighted a number of estimates for the Committee's information. They are as follows:

- Salary Gapping - \$2.5 million (revised target)
- Not hiring of Summer Students - \$1.7 million
- Savings from laying off part-time and casual employees - \$2.2 million

The 2020 Budget included a plan to avoid \$1 million in salary and benefit costs by delaying the hiring process for positions that become vacant, where it is appropriate to do so. This is known as 'salary gapping'.

The effect of salary gapping on services and service levels are significant. Cycle times, delays, service level reductions as well as overall availability of services are all impacted by this exercise. There are also impacts on staff that are currently in place. The remaining workload is spread amongst those who are currently providing services, and may create bottlenecks and/or capacity issues. However, it is reasonable to anticipate some level of "natural" salary gapping will occur due to staff movements/retirements, but a preferable approach for managing costs is to adjust specific service levels.

Staff continue to analyze the progress of salary gapping compared to the revised target. The revised target has been met of approximately \$2.5 million as of the end of August. Staff continue to analyze projections against the remaining two targets.

Parking

As a result of decreased revenues, Parking Services is projected to negatively impact the levy. Historically, this section is budgeted to have a positive impact on the levy of \$200,000. The Parking Improvements Reserve Fund has historically been funded by the net operating revenues in excess of operating expenses.

As stated above, the contribution to the Parking Improvements Reserve Fund has been removed due to lost revenues. This reserve fund is now in a deficit position due to 2020 budget commitments. This impacts the ability to fund future capital projects from this reserve. It also means that future commitments may have to be funded by the tax levy, rather than the Parking Improvements Reserve Fund. Staff will continue to provide updates in subsequent reports.

Service and Budget Management

Directors and Managers throughout the organization, with ELT's support, have curbed spending because of the projected financial position. The explanations included in this report highlight the collaboration and teamwork that management has implemented. Expenditure reductions and controls listed above consist of the following examples:

- Reduced salaries and benefits to meet revised salary gapping target
- Adapting service levels (such as Transit and Leisure Services)

In previous reports, this section included a highlight of Leisure Services. Both Transit and Leisure Services have adapted service levels. These areas have now been identified as a variance of over \$200,000. Staff within this area continue to mitigate and lower the potential year-end deficit and are doing so with a great amount of success.

Summary

The City's 2020 projected year-end surplus of \$4.9 million is a result of extensive service adjustments, extraordinary expenditure controls and one-time senior government support. Staff continue to analyze and mitigate the impact of COVID-19 as much as possible.

This surplus will be contributed to a reserve during the year-end process. These funds can be utilized to offset pressures and aid with the 2021 budget shortfall.

References

2020 Operating Variance Report – April

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=30621.pdf>

2020 Operating Variance Report – June

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1513&itemid=19100&lang=en>

2020 Operating Variance Report – August

<https://agendasonline.greatersudbury.ca/?pg=agenda&action=navigator&id=1563&lang=en>

Financial Implications Associated with the Corporation's COVID-19 Response – September

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=7&id=1514>

Financial Implications Associated with the Corporation's COVID-19 Response - July

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1512&itemid=19140&lang=en>

Financial Implications Associated with the Corporations' COVID-19 Response – June

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1558&itemid=18864&lang=en>

Appendix A - Net Operating and Expenditure Projections

City of Greater Sudbury Net Operating Revenue and Expenditure Projection For the year ended December 31, 2020



	Net Operating Budget	YE Position	Surplus (Deficit)	Notes
Corporate Rev and Exp Summary				
Revenue Summary	(319,766,143)	(319,341,080)	(425,063)	1
Other Revenues and Expenses	34,392,713	32,302,165	2,090,548	2
TOTAL CORPORATE REVENUES	(285,373,430)	(287,038,915)	1,665,485	
Executive and Legislative				
Office of the Mayor	736,903	689,318	47,585	
Council Memberships & Travel	77,729	78,223	(494)	
Council Expenses	1,210,725	1,146,516	64,209	
Auditor General	394,713	394,713	0	
Office of the C.A.O. Summary	11,931,973	10,716,678	1,215,295	3
Executive and Legislative	14,352,043	13,025,448	1,326,595	
Corporate Services				
Corporate Services -GM Office	548,692	548,692	0	
Legal & Clerks Services	1,314,909	1,332,402	(17,493)	
Security, By-Law & Parking	643,120	1,760,764	(1,117,644)	4
Information Technology	152,491	(134,982)	287,473	5
Human Resources and O.D.	0	817,484	(817,484)	6
Finance, Assets and Fleet	13,966,262	13,978,871	(12,609)	
Corporate Services	16,625,474	18,303,231	(1,677,757)	
Economic Development Summary				
G. M. Office	0	0	0	
Economic Development	4,880,056	4,449,715	430,341	7
Economic Development Summary	4,880,056	4,449,715	430,341	
Community Development Services				
G.M. Office	406,263	287,505	118,758	
Housing Services & Operations	19,507,210	18,479,301	1,027,909	8
Long Term Care-Senior Services	5,967,986	5,557,408	410,578	9
Social Services	5,594,800	4,387,812	1,206,988	10
Children Services	1,820,243	1,820,242	1	
Leisure & Cemetery Services	21,483,811	20,603,270	880,541	11
Transit	15,972,457	17,517,721	(1,545,264)	12
Community Development Services	70,752,770	68,653,259	2,099,511	
Growth and Infrastructure				
Growth I.S. Other	220,402	220,402	0	
Inf Capital Planning	6,752,296	6,178,016	574,280	13
Engineering Services	0	(236,283)	236,283	14
Water - Wastewater	(0)	0	(0)	
Linear Infr Maintenance	41,938,847	42,258,415	(319,568)	15
Environmental Services	15,694,885	15,246,092	448,793	16
Planning and Development	5,782,361	5,438,917	343,444	17
Treatment & Compliance	(0)	0	(0)	

City of Greater Sudbury
Net Operating Revenue and Expenditure Projection
For the year ended December 31, 2020



	Net Operating Budget	YE Position	Surplus (Deficit)	Notes
Building Services	0	0	0	
Growth and Infrastructure	70,388,790	69,105,559	1,283,231	
Community Safety				
C.S. G.M.'s Office	0	0	0	
Emergency Management	486,799	372,954	113,845	
CLELC Section	(809,371)	(717,039)	(92,332)	
Emergency Medical Service	11,277,641	10,308,136	969,505	18
Fire Services	26,750,607	27,427,578	(676,971)	19
Community Safety	37,705,676	37,391,629	314,047	
Outside Boards				
Outside Boards Other	7,967,865	7,967,865	0	
Police Services	62,700,756	63,199,568	(498,812)	20
Outside Boards	70,668,621	71,167,433	(498,812)	
TOTAL EXPENDITURES	285,373,430	282,096,274	3,277,156	
TOTAL	\$0	(\$4,942,641)	\$4,942,641	