

2018 Operating Budget Variance Report - March

Executive Summary

This report provides a variance analysis of the City's first quarter results (January to March 31, 2018). Staff has identified areas where material yearend variances in the operating budget may occur.

Background

The purpose of this report is to provide Council with a preliminary overview of potential yearend variances. The monitoring and reporting of variances has 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 yearend variances.

A more detailed projection will be undertaken in the summer based on the expenditures and revenues contained in the June 2018 Cost Centre Report. During this process, each department will be requested to project a yearend value for each account. Based on this information, a corporate yearend projection will be made. Council will receive this report in September of 2018.

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:

1) Taxation Revenue

The first 2018 supplementary tax roll has not yet been received and therefore staff is unable to forecast the potential yearend position. In 2017, the City received \$3.0 million in supplement taxation, approximately \$800,000 over the budgeted amount, however this was offset by an increase in tax write offs. 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 variance when more information becomes available.

2) Provincial Offences Act

There is a potential risk that budgeted POA revenues will not be attainable due to a declining number of charges being issued.

3) Fleet Services

Fleet is projected to be overspent by the end of the year in the maintenance of the City's vehicles and equipment, particularly contracting out, tire and parts costs. This is largely due to costs associated with servicing an aging fleet. Staff will try to mitigate these expenses through the right sizing of cross department seasonal needs, opportunity

for savings in parts pricing and improvements to throughput times for completing vehicle repairs.

4) Pioneer Manor

Pioneer Manor is forecasting a potential negative variance of \$400,000. An unanticipated change in the 2018/19 Case Mix Index (CMI) rate will have an impact of approximately \$290,000 for the nine month period from Apr - Dec of this year. Strategies to mitigate this loss in Provincial funding are being investigated. In addition, Pioneer Manor has experienced an unusually high rate of modified work for the first quarter of 2018. The cost of increased modified work and Bill 148 requirements have increased the potential 2018 yearend variance.

5) Transit Services

Transit is experiencing budget pressures in fuel costs and maintenance repairs. Bus fuel costs are anticipated to exceed budget due to ongoing unfavourable market conditions for the price of diesel fuel. Fleet Maintenance will work with Transit Services to find savings in parts pricing, contracting out and efficiencies in the scheduling of preventative maintenance

6) Roads Winter Control Operations

Roads winter control is anticipating an over expenditure of \$860,000 by yearend. This is largely due to the unanticipated winter events in April, more frequent freeze/thaw events throughout the winter months, and an increase in the street sweeping contract tender prices. In accordance with to the Reserve and Reserves Fund bylaw, any Roads Winter Control over expenditures may be funded from the Roads Winter Control Reserve Fund.

7) Environmental Services

As previously reported, revenues from the sale of recyclable materials have taken a significant downturn as a result of China imposing bans and restrictions on the acceptance of recyclable materials. Staff have already seen an impact to revenue on the 2018 budget, and it is anticipated that this may continue to worsen throughout the remainder of the year. The 2019 budget will be adjusted accordingly.

8) Water Wastewater

Actual user fees are tracking below budgeted amounts at the end of March, but are comparable to 2017 first quarter actuals. It is too early in the year to project consumption levels with accuracy. Staff will have a better indication of consumption levels with the June projection report.

It is very difficult to budget for the amount of watermain break related repair work required during the year as breaks fluctuate based on a number of factors. Due primarily to favourable weather conditions there were a below average number of breaks in 2016 and 2017. There were 37 watermain breaks through the end of March 2018. That compares to 35 in 2017 (90 annual) and 29 in 2016 (85 annual).

Summary

This has been a preliminary review of the revenues and expenditures for the first three months of 2018. It is still too early to provide an accurate yearend projection. A more comprehensive review will take place after the June 2018 month end and Council will be presented with a corporate yearend projection in September. Quarterly reports will be prepared for Council throughout 2018.