

Subject: 2023 Third Quarter Operating Fund Variance

Department: Corporate Services

Division: Finance

Report #: CPS-2023-086

Meeting Date: 2023-11-27

Recommendations

That report CPS-2023-086 regarding the 2023 Third Quarter Operating Fund Variance be received.

Background

The purpose of this report is to provide Council with a corporate summary of the operating financials for the period ending September 30, 2023, and to summarize significant variances that have been identified during the third quarter.

This report and the explanations provided are intended to highlight trends being monitored for Council's information and to address significant year-to-date ("YTD") variances.

While the variances mentioned below may not be indicative of future trends or variances for the remainder of the year, it is important to highlight the current variances to ensure that Council is aware.

Analysis

The YTD operating fund performance has resulted in a favourable variance of \$5,740,912 or 68.9%. This has largely been due to less expenditures and internal transfers than expected.

The two (2) key areas for this variance are reserve transfers, which is a timing issue and will narrow as capital projects reach completion, and a significant gap in compensation expenditures. Compensation variances result from budgeting for staff positions at job rate, the timing of hiring newly approved or seasonal positions, and job vacancies. Further details are provided in the body of the report.

Appendix 1 – 2023 Third Quarter Operating Fund Variance provides a comparison of the actual operating results to the operating budget allocations as of September 30, 2023, by division.

Table 1 below summarizes the third quarter operating fund results by source. Significant divisional variances are highlighted below.

The consolidated YTD revenues are \$2,291,231 or 4.1% below the third quarter YTD budget allocation. Having said that, revenues to date represent approximately 83% of the annual budget and are 5% higher than the third quarter for 2022.

The consolidated YTD expenditures show a variance of \$6,205,669 or 13.8% lower than the third quarter YTD budget allocation. Expenditures to date represent approximately 65% of the annual budget and are 4% higher than the third quarter YTD of 2022.

The consolidated internal transfers to date are \$1,826,474 or 57.7% lower than the third quarter YTD budget allocation. The main drivers behind this variance are reserve and capital transfers. These types of transfers only occur when funding is needed.

Table 1 – 2023 Third Quarter Operating Fund Variance by Source

	YTD Actuals	YTD Budget	YTD Variance in dollars	YTD Variance %	Annual Budget
	Millions				Millions
Revenues	\$54.1	\$56.4	\$(2,291,231)	(4.1)%	\$65.5
Expenses	\$(38.7)	\$(44.9)	\$6,205,669	13.8%	\$(59.3)
Internal Transfers	\$(1.3)	\$(3.2)	\$1,826,474	57.7%	\$(6.2)
Total Operations	\$14.1	\$8.3	\$5,740,912	68.9%	

For reference, revenues higher than budget and expenses less than budget result in a positive (+) variance, and revenues less than budget and expenses higher than budget result in a negative (-) variance.

Significant divisional variances that are greater than 15% are highlighted below:

- \$85,638 Committees** – The main cause of this favourable variance from the budget is due to the absence of spending across several committees. Out of ten (10) active committees, the Access Orangeville Committee, Honours Committee, Sustainable Orangeville, and the Police Service Board are the only committees to have drawn upon their YTD funding allocations.
- (\$181,104) Administration** – This variance is due to a combination of additional compensation costs and under spending in other areas of administration.

\$1,602,098 Corporate Allocations – While this variance is just 4.2%, it is worth noting the following significant favorable variances:

- \$859K in budgeted new debt that has not been incurred;
- \$331K variance in tax write-offs;
- Additional \$87K in penalties & interest on taxes.

A portion of this favourable variance has been offset by an unfavorable variance of \$225K in investment income due to timing of transfers. Most variances in Corporate Allocations are due to timing and will narrow by year end. However, the variances in debt payments will remain.

\$61,677 By-Law Enforcement – This favourable variance is driven by an increase of \$15K in parking fines, \$19K less in professional fees, and \$25K above forecast in the collection of POA fines.

\$183,547 Clerks – The main driver of this favourable variance is compensation costs approximately \$275K below the third quarter YTD allocation due to unfilled contract positions. There was also an increase in administrative revenue of approximately 16K above the third quarter YTD forecast.

(\$229,137) Information Technology – This unfavorable variance was driven by a number of factors: \$88K in security & data protection; \$52K software agreements; \$51K video surveillance maintenance; and \$46K in computer operations & supplies. A comprehensive of IT costs has been undertaken in advance of the 2024 budget and updated multi-year forecast.

\$99,436 Crossing Guards – This majority of this variance is driven by compensation costs being \$93K below the division's YTD allotment. This program has been short staffed with the supervisor covering shifts where necessary.

\$90,376 Economic Development & Culture – This favourable variance is being driven by a difference in compensation of \$30K, timing of grant disbursements for Starter Company and Summer Company, and the opportunistic addition of the \$21K Digital Main Street Program grant to the 2023 budget.

\$777,100 Facilities – The majority of this favorable variance is due to being below Alder's YTD allocation for operations and management by \$654K and being below the division's allocation for YTD compensation by \$261K.

\$270,769 Recreation & Events – Aquatics programming costs across Tony Rose and Alder are \$142K lower than budget due to the ongoing pool closures. Program registration for summer camps was \$60K higher while

compensation costs for summer camps were \$68K lower than the YTD allotment.

\$363,255 Library – Compensation was below the YTD budget allocation by \$163K and was the largest driver towards this variance. Facilities management was the next largest driver, being \$37K below the budgeted level. These variances are largely due to the renovations and closure of the Mill Street Library. The expectation is that this will quickly change with the re-opening of the Mill Street facility.

\$771,156 Public Works – Due to the significant size of this division, there are many factors that contributed to this variance.

- Compensation is below YTD target by \$100K due to job vacancies;
- Parking agreement revenue from Metrolinx in the amount of \$39K was received;
- Salt and sand related costs are down \$459K due to timing of delivery of supplies and contracts;
- Sidewalk and street lighting costs are a combined \$180K below the YTD target;
- Catch basin, resurfacing, and winter control administration costs are currently a combined \$364K below target.

These favourable variances are slightly offset by an increase in overhead costs of \$265K and snow removal costs of \$123K.

\$56,720 Cemetery – Variances in this division are due to unpredictable timing and use of services by the community as well as the Town. Expenses and corresponding revenues predominantly occur in the warmer months. There was an increase in revenue of \$48K above the YTD forecast due to additional demand for services from the community.

\$(276,041) Transit – This variance is driven by a decrease in revenue and external cost recoveries of \$38K. There was also an increase in demand for outside services of \$79K above the YTD allotment. Fleet management has witnessed an increase in costs of \$62K.

Non-Levy Funded variances in excess of 15% are outlined below:

(\$53,934) Building – This variance is due to \$47K less in building permit revenue than forecasted. This is reasonable given we cannot accurately estimate the number of permits required each year or market conditions such as the prevailing interest rate. Compensation costs were \$45K below the YTD allotment but were offset by a collective set of other minor variances.

- \$1,026,658 **Water** – While revenues were down \$925K, this unfavourable variance was more than offset by a variety of other reductions in costs. The largest driver of this difference was compensation at \$341K, as there were various vacant positions through the quarter. The variance in compensation is expected to remain till the end of the year. Water and sewer reading costs were \$52K lower than budget, as well as \$15K less in insurance deductibles. Water supply hydro was \$63K below its allotment while SCADA costs were \$162K below the YTD budget. There will continue to be minimal SCADA costs until the end of the year.
- \$534,878 **Wastewater** – There were a variety of drivers for this favourable variance. Compensation for the division was \$90K lower than budget. Biosolids disposal and chemical costs were a combined \$106K below their YTD allotments, while facilities management fees were \$147K lower. Overhead, sanitary sewers, and SCADA combined for a 275K deficit in costs.

Overall, the 2023 third quarter **favourable** operating fund variance of \$5,740,912 is stable. The third quarter variance is not indicative of a trend and is subject to change. The financial position of the Town will continue to change throughout the balance of the year due to factors such as weather-related activity, utility and fuel usage, tax write-offs, position vacancies and development activity.

Reporting quarterly on the operating fund variance supports Council in achieving its fiduciary responsibilities to monitor and report on corporate performance in accordance with the Town's Strategic Plan.

Strategic Alignment

Strategic Plan

Strategic Goal: Future-Readiness

Objective: Due Diligence – confirm applicable governance and policy regimes

Sustainable Neighbourhood Action Plan

Theme: N/A

Strategy: N/A

Notice Provisions

None

Financial Impact

There is a favourable variance of \$5,740,912 at the end of September 30, 2023, however this is expected to narrow by the end of the year. If achieved, any remaining surplus at year end is transferred to the general capital reserve. The funding within this reserve is critical to the sustainability of the Town's long-term infrastructure financing plan and asset management program.

Respectfully submitted

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Attachment(s): 1. 2023 Third Quarter Operating Fund Variance