



Subject: 2021 Second Quarter Operating Fund Variance

Department: Corporate Services

Division: Finance

Report #: CPS-2021-058

Meeting Date: 2021-08-09

Recommendations

That report CPS-2021-058 regarding the 2021 Second Quarter Operating Fund Variance be received.

Background

The purpose of this report is to provide Council with a corporate summary of the Operating Fund performance for the period ending June 30, 2021 and to summarize significant variances that have been identified during the first and second quarters.

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 overall operating fund operations resulted in a favourable variance of \$4,350,526 or 39%. This is largely due to less expenditures than expected. The two key areas for this variance are reserve transfers, which is a timing issue and will narrow as capital project reach completion, and a significant gap in the compensation envelope. Further details are provided in the body of this report.

Appendix 1 – 2021 First Quarter Operating Fund Variance provides a comparison of the actual operating results to the operating budget allotment as of June 30, 2021 by

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

The consolidated revenues to date are \$1,264,325 or 3.1% below the second quarter YTD budgeted allotment. Revenues to date represent approximately 66% of the annual budget and are 1% lower than the second quarter YTD for 2020.

The consolidated expenditures to date show a variance of \$4,424,194 or 17.4% lower than the second quarter YTD budget allotment for spending. Expenditures to date represent approximately 49% of the annual budget and are 6% lower than the second quarter YTD of 2020.

The province of Ontario had imposed various stages of lockdowns throughout the first and second quarter of 2021 which impacted mainly the Library, Facilities and Recreation divisions. The main driver of the variances mentioned above is due the measures taken to minimize the impacts and spread of COVID-19 including; closure of facilities, service delivery changes, modified working environment for employees, redirected resources and casual and seasonal part-time layoffs.

The consolidated internal transfers to date are \$1,190,657 or 28% lower than the second quarter budget allotment. The main drivers of this variance are due to reserve and capital transfers. The annual transfer to Insurance Reserve is \$149K lower than anticipated budget, and transfers to reserve funds and to capital have been lower than budgeted in Corporate Allocations. These type of transfers only occur when funding is needed.

Table 1 – 2021 Second Quarter Operating Fund Variance by Source

	YTD Actuals	YTD Budget	YTD Variance in dollars	YTD Variance %	Annual Budget
	Millions				Millions
Revenues	\$(39.5)	\$(40.8)	\$(1,264,325)	(3.1%)	\$(59.5)
Expenses	20.9	25.4	4,424,194	17.4%	43.0
Internal Transfers	3.5	4.2	1,190,657	28%	8.1
Total Operations	\$(15.5)	\$(11.2)	\$4,350,526	38.9%	

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:

\$29,095 **Council** – The main cause of this variance from budget is due to timing and requirements for expenses of the division. Memberships & subscriptions were \$4.1K higher, supplies, workshops & training were \$9.5K lower, public relations were \$10.9K lower, and sympathy & other

gifts were \$5.1K lower. These variances are expected to narrow by year-end. Additionally, fringe benefits are \$6.3K lower than budget due to the budgeted amount being an estimation.

- \$1,902,291 **Corporate Allocations** – while this favourable variance is minor at 6.4%, it is worth noting the following significant variances. The most noteworthy variances include, the Town received \$355K in provincial grants (Safe Restart and Ontario Cannabis Legalization Implementation Fund) not budgeted for, tax write-offs are \$119K lower than budget, \$414K in budgeted debt payments were not incurred, \$1.26M transfers from reserves and levies to capital remains to be recorded to fund capital projects as they achieve completion. These variances are offset by \$101K in supplementary tax adjustments, and \$134K increase in insurance premiums compared to budget. Majority of variances in Corporate Allocations are due to timing, however, the variances in provincial grants, debt payments and insurance premiums will remain.
- \$82,979 **Clerks** – Clerks are currently \$98K below budget for compensation expenses due to vacant positions. This variance will remain. Various expenses such as memberships & subscriptions, training, marriage licenses and office equipment & supplies are below budget due to requirements of the division in the first two quarters. These margins are expected to narrow by year-end.
- \$171,633 **Finance** – The finance division is currently \$222K lower than budget for compensation. This is due to several vacant positions throughout the year that were budgeted for but, have not yet been filled. This is offset by \$19K in professional fees related to property assessments that were not budgeted for and \$30K in transfers to capital that has not yet been utilized. The compensation and professional fees variances will remain, while the transfers to capital variance is a timing issue.
- \$63,920 **Crossing Guards** – Variance is due to the closures of schools which resulted in a reduction of hours for crossing guards during those periods, therefore, compensation was less than budget. This variance will remain.
- \$111,444 **Economic Development & Culture** – \$36K of this variance is due to compensation. A new full-time position was approved for 2021 and was filled in late March and a subsequent vacancy was filled in May. \$88K in grants related to the SBEC and Digital Main St. Programs were received that were not budgeted for. Funds will be expended by the end of each program. Various marketing & advertising expenses are underspent by \$17K in the first half of the year due to limitations imposed by travel restrictions. As the Tourism Branding project is rolled out, and promotion of the community resumes, marketing and advertising expenditures expected to increase. Some variances related to SBEC are partner

contributions (revenues) \$18K below budget and expenses for enhanced virtual consulting of \$18K were not budgeted for. Variances are mainly due to timing and are expected to narrow by year-end.

- \$259,840 **Recreation & Events** – Majority of this variance is due to the closure of the recreation programs as a result of COVID-19. Compensation expenses are down \$540K compared to budget, while programming revenues are down \$400K. Partner Services expenses were down \$44K and special project expenses were down \$17K. The remaining variance is attributed to less programming supplies and expenses required due to the closures.
- \$522,724 **Public Works** – 13% of this variance is due to compensation (lower due to various factors). The main drivers of this variance from budget are due to timing and requirements for certain expenses of the division. Compared to budget, fleet expenses are \$58K lower, snow removal services are higher by \$93K, sanding & salting materials are \$231K lower, outside services are \$117K lower, and tree maintenance costs are \$65K lower. These are the largest variances of the division and the margins are expected to narrow by year-end.
- \$6,396 **Cemetery** – Variances in this division are due to timing and use of services by the community as well as the Town. Revenues are down \$3.6K and expenses are down \$10K most of which is outside services.
- \$44,834 **Transit** –The Town received a transit grant from The Ministry to cover operational costs related to COVID-19. This grant was for \$86K which offset the decrease in user fees & recoveries of \$65K. The overall impact on revenues was \$21K above budget. Fleet costs are currently \$27K over the budgeted amount and outside service expenses are down \$50K, both of which are expected to narrow by year-end.
- \$50,173 **Building** – Permit revenues are down \$12K which is reasonable given we cannot accurately estimate the number of permits required each year. COVID-19 has also impacted permit revenues due to shut-downs and increased material costs. Remainder of variance is due to compensation as part of one employees wages and benefits were approved to be reallocated to the Crossing Guards division.

Overall, the 2021 second quarter operating fund variance of \$4,350,526 is stable given the measures taken to reduce the impact and spread of COVID-19. The second quarter variance is not indicative of a trend and is subject to change, especially given the unprecedented current pandemic. The financial position of the Town will continue to change throughout the balance of the year due to factors such as the impacts of

COVID-19, weather related activity, utility and fuel usage and rates, tax write-offs, position vacancies and development activity.

Reporting quarterly on the operating fund variance supports Council in achieving its fiduciary responsibilities and the Strategic Plan's Strong Governance pillar and financial responsibility to balance the need for service and investment with fiscal restraint.

Strategic Alignment

Orangeville Forward – Strategic Plan

Priority Area: Strong Governance

Objective: This report supports the Town's objective of financial responsibility

Sustainable Neighbourhood Action Plan

Theme: Corporate and Fiscal

Strategy: Encourage and support inter-departmental collaboration and communication to facilitate the adoption of sustainable practices in the municipality

Notice Provisions

Not applicable

Financial Impact

There is no immediate impact as a result of the second quarter operating variance analysis.

Respectfully submitted

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Attachment(s): 1. 2021 Second Quarter Operating Fund Variance