SUBJECT: Operating Budget Performance Report as at June 30th, 2016

TO: Community and Corporate Services Committee

FROM: Finance Department

Report Number: F-36-16

Wards Affected: All

File Numbers: 435-06

Date to Committee: September 12, 2016

Date to Council: October 3, 2016

Recommendation:

Direct the Director of Finance to report back on the city's retained savings strategy upon confirmation of the 2016 year-end actual.

Purpose:

Address other area of responsibility

Background and Discussion:

The attached Appendix A provides a corporate summary of the 2016 Operating Budget Performance at June 30, 2016 and highlights significant favourable and unfavourable variances +/-$100,000 at the "net service level". Also attached is Appendix B, which provides explanatory notes for each cost element with a significant favourable or unfavourable variance (+/- $100,000). Finally Appendix C is included which provides an update on financial and non-financial performance measures as at June 30, 2016.

Strategy/process

In order to be proactive in identifying issues and initiating actions to mitigate over-expenditure and revenue shortfalls, budgetary performance is monitored monthly to provide an early indication of potential problems and gives management time to consider appropriate actions.

Financial Matters:

Variance Analysis

The following table summarizes the corporate wide variances as at June 30, 2016 and the projection for the Year End.

	2016 June YTD Variance	F/U*	2016 Projected Year End Variance	F/U*
City Services	$ 1,964,290	F	$ 2,195,649	F
Special Partners & Boards	$ 17,331	F	$ (4,473)	U
Corporate Expenditures	$(1,543,722)	U	$(1,463,080)	U
Corporate Revenues	$ 1,153,814	F	$ 1,142,939	F
Total	**$ 1,591,712**	**F**	**$ 1,871,035**	**F**

F = Favourable, U = Unfavourable

Appendix A identifies favourable/unfavourable variances +/-$100,000 at the “net service level”. Service Owners have provided variance explanations on their financial measures as itemized in Appendix C.

Service Spending/Revenue Patterns

In addition, a brief synopsis of service-wide spending and revenue patterns that experienced significant variances (greater than $100,000) is included for information (Appendix B). This analysis includes a review of both year-to-date variances and the preliminary year-end estimates.

2016 Retained Savings Opportunities:

Year-end projections continue to be refined by staff on a monthly basis in order to improve their degree of precision. Services will also continue to exercise their usual due diligence when authorizing large expenditures in order to ensure savings are realized in 2016.

Any savings are viewed as “one-time” revenue. From a multi-year budgeting perspective, the use of “one-time” revenues should be tied directly to “one-time expenditure priorities that may include transfers to reserve funds. As Committee is

aware, to do otherwise results in the reliance on “one-time” revenues for funding ongoing expenditures, and is contrary to multi-year budgeting principles.

Staff are reviewing the following areas to allocate retained savings and will report to Council in the new year with a specific recommendation once the savings are quantified:

- An allocation to be used in the 2017 Operating Budget to help finance one-time expenditures and
- Provisions to replenish Reserve and Reserve Funds such as :
    - Strategic Plan Reserve fund (as outlined in report F-21-16 - minimum of $500,000 from the city’s retained savings of $1,000,000 or greater)
    - Capital Renewal Reserve Fund (focus on infrastructure requirements)

Staff continue to recommend contributions to Reserve and Reserve Funds to allow the city the financial flexibility to respond to uncontrollable factors (like economic cycles, revenue fluctuations), short term and one-time needs, and sustainability to plan for today and the future. Furthermore, the City will also continue to feel pressures from infrastructure renewal costs, commodity cost fluctuation, assessment growth risk and influences of economic conditions.

Conclusion:

This report provides an overview of the performance of the 2016 Operating Budget as at June 30, 2016 and projections for the City’s year-end financial position. It serves to highlight areas that may have a significant impact on the 2016 year-end financial position. The report further suggests retained savings opportunities to be confirmed in early 2017.

The monitoring of corporate and service expenditures and revenues, as part of the Operating Budget Performance policy, exists as a key component of the City’s financial management control system. Staff will continue to scrutinize expenditure and revenue patterns for the balance of 2016 to ensure a favourable year-end financial position.

Respectfully submitted,

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Appendices:

a. Summary of the 2015 Operating Budget Performance as at June 30, 2015
b. Corporate-wide Spending and Revenue Analysis
c. Financial and Non-Financial Accountability Report

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.