

Memorandum

Date: July 7, 2020

To: Members of Council

From: Michelle Xu, Financial Analyst, Finance and Infrastructure Services

Subject: 2020 Quarter 1 Operating Budget Variance

The purpose of this memo is to provide an overview of the 2020 actual results as compared to the operating budget for the first three months of 2020 ending on March 31, 2020.

EXECUTIVE SUMMARY

- There is an overall net favourable variance of \$731,229 in the 2020 Operating Budget variance as of March 31, 2020 (Quarter 1, 2020) comprised of:
 - \$927,840 favourable variance in overall revenues; and
 - \$196,611 unfavourable variance in overall expenditures
- With Caledon's emergency declaration and facility closures in March, 2020 due to the COVID-19 pandemic, the Quarter 1 financial results only contain half of month of:
 - unfavourable revenue impacts related to the closure of facilities and cancellation of recreation programs; and
 - Unbudgeted/unfavourable expenditures related to the Town's response the pandemic (e.g. additional cleaning services, hand sanitizers) and recovery from the pandemic to bring some services back online
- It is anticipated that that revenues will be more significantly impacted in the Quarter 2 reporting and year-end projections (to be presented in August 2020).

DISCUSSION

Operating Budget results for the three months ending March 31, 2020, show a \$731,229 net favourable variance. While the Town traditionally has a favourable quarter 1 financial results, the 2020 year has been unlike any other year in recent history. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. Shortly afterwards, the Town of Caledon and the Province of Ontario made emergency declarations. Many Town facilities were closed to the public starting March 14, 2020. Accordingly, the impact of the COVID-19 pandemic is not fully reflected in the Quarter 1 (January 1 to March 31, 2020) financials outlined in this report. Staff are working on an August Council report, the Quarter 2 Operating Budget Variance Report, that will include financials to the end of June 2020 and provide a year-end financial projection for the Town's operating budget. It is anticipated that revenues will be mainly unfavourable in the Quarter 2 report as Recreation facilities have been closed, programs cancelled since March 14, 2020.

Quarter 1, 2020

Variances reported during the year may be related to timing differences where the budget for a revenue or expense is in a month/quarter and the actuals occur in a different month/quarter. Timing differences reported in a quarter may be offset in another quarter and result in no overall surplus or deficit by the end of the year. Any realized surplus or deficit at the end of the year will be reported to Council along with recommendations for transfers to or from the Town's Operating Contingency Reserve, if necessary.

Staff within each department is responsible for the delivery of programs and services while managing their budgets within the Council-approved 2020 operating budget. While accountability for financial performance (e.g. actual revenues and expenditures) belongs with the Corporate Management Team, both Finance and department staff share the responsibility of monitoring operating budget variances throughout the year.

Based on the results for the quarter ending March 31, 2020, the Town has a \$731,229 favourable operating budget variance comprised of a \$927,840 favourable variance in revenues and a \$196,611 unfavourable variance in expenditures. The table below provides an overview of the first quarter variance by department and by revenues/expenses:

SUMMARY OF 2020 Q1 OPERATING BUDGET VARIANCE BY DEPARTMENT

Department		2020 YTD Budget	2020 YTD Actuals	Variance Favourable / (Unfavourable)	Variance %
Strategic Initiatives (including Library)	Revenue	(20,575)	(83,158)	62,583	304.2%
	Expense	1,732,375	1,707,744	24,631	1.4%
	Net Budget	1,711,800	1,624,586	87,214	5.1%
Community Services	Revenue	(2,125,798)	(2,309,081)	183,283	8.6%
	Expense	6,713,694	6,135,738	577,956	8.6%
	Net Budget	4,587,896	3,826,658	761,238	16.6%
Corporate Services	Revenue	(1,197,405)	(1,232,550)	35,145	2.9%
	Expense	2,813,321	2,728,231	85,090	3.0%
	Net Budget	1,615,916	1,495,681	120,235	7.4%
Finance & Infrastructure Services	Revenue	(451,015)	(1,012,834)	561,819	124.6%
	Expense	7,262,920	7,755,456	(492,536)	-6.8%
	Net Budget	6,811,905	6,742,622	69,283	1.0%
Corporate Accounts	Revenue	(36,722,796)	(36,807,805)	85,009	0.2%
	Expense	23,072,517	23,464,268	(391,751)	-1.7%
	Net Budget	(13,650,279)	(13,343,537)	(306,742)	2.2%
TOTAL	Revenue	(40,517,589)	(41,445,429)	927,840	2.3%
	Expense	41,594,827	41,791,438	(196,611)	-0.5%
	Net Budget	1,077,238	346,009	731,229	

The 2020 budget operating variance is further broken down by division within each department and is available on Schedule A of this report.

Department Overview

The following comments by department are high level, relevant explanations of the Q1 2020 budget operating variance. Variance review and explanations are performed and provided through the combined efforts of Finance and the department staff.

Strategic Initiatives

Quarter 1, 2020 favourable variance of \$87,214

- \$58,500 favourable variance in Economic Development & Tourism for Grants/Subsidies mainly due to grant received from Laidlaw Foundation regarding the Youth Voice Project to be fully spent by the end of the year. \$11,966 favourable variance in Library for Grants/Subsidies due to timing of unbudgeted grants received from SOLS, Frank Cowan and Rotary Club Palgrave, these grants will be spent by the end of the year.
- \$52,755 favourable variance in salaries, wages and benefits across the department due to salary gapping, vacant positions and delay in hiring for vacancies; partially offset by backfilling vacant positions with contract staffing.
- \$30,267 unfavourable variance mainly due to timing of expenses regarding Corporate Training/Development, disability claims and employee assistance program

Community Services

Quarter 1, 2020 favourable variance of \$761,238

- \$335,488 total favourable variance in Planning & Development revenues, specifically in Engineering Fees, Site Plan Application Fees and Re-zoning Application Fees revenue due to timing and higher than budgeted volume of applications received in Q1.
- \$239,117 favourable variance in Salaries and Benefits for the Department, primarily from salary gapping and vacant positions across Recreation, Buildings Services and Planning & Development Services. This was partially offset by unfavourability from Fire and Emergency Services' wages due to increased responses to incidents.
- \$128,325 favourable variance in utilities in Recreation and Fire and Emergency Services driven by timing of invoices and lower electricity usage in recreation facilities as result of the facility closures.
- \$76,376 favourable variance due to timing of payments for the Heritage Property Grant Program.
- \$38,013 favourable variance in Buildings/Ground Maintenance & Repairs due to timing of the work done to upkeep the Emergency/Fire Stations.
- \$36,109 favourable variance in Fire and Emergency Services revenue mostly due to higher volume of motor vehicle accidents and burn permits.
- \$93,172 unfavourable variance from Recreation program revenues mainly in aquatics, arena programs, fitness and ice rentals due to facilities closure. The Town of Caledon declared an emergency on March with many facilities closed to the public, due to the COVID-19 pandemic, since March 14, 2020. Accordingly, the Quarter 1 financial results only reflects half of month of unfavourable revenue impacts related to the closure of facilities and cancellation of recreation programs. It is anticipated that that revenues will be more significantly impacted in the Quarter 2 reporting and year-end projections (to be presented in August 2020).

Corporate Services

Quarter 1, 2020 favourable variance of \$120,235

- \$148,520 favourable variance in salaries, wages and benefits across the department due to salary gapping, vacant positions and delay in hiring for vacancies; partially offset by backfilling vacant positions with contract staffing. This favourable variance is partially offset by \$20,657 in Legal Services due to outsourcing of unique litigation matters.

- \$56,336 favourable variance in Legal Services primarily due to timing of unbudgeted Sale of Town Property and unbudgeted Lease Revenue, variance of \$41,713 from Sale of Town of property will be transferred to the Surplus Land reserve.
- 78,919 unfavourable variance in POA Caledon Fines mainly due to court closure and reduced tickets filing from OPP since the middle of March. As of the writing of this report, the Courts, which have been closed since March 2020, due to the COVID-19 pandemic, remain closed.
- \$27,680 favourable variance for grants/subsidies due to timing of recording French Language Services (FLS) grant as well as \$20,440 favourable variance in contracted services due to timing of posting judicial and prosecution expenses in April.

Finance and Infrastructure Services

Quarter 1, 2020 favourable variance of \$69,283

- \$314,538 favourable variance in Salaries and Benefits primarily from gapping position vacancies across Roads & Fleet, Transportation, Engineering, and Facilities net of an unfavourable variance for overtime related to winter maintenance.
- \$253,163 favourable variance in Engineering from the timing of Development Application fee revenue which is higher than planned for the first quarter.
- \$104,200 favourable variance in Roads & Fleet due to timing of ditch cleaning maintenance work.
- \$59,414 favourable variance in Roads & Fleet from timing of heavy duty vehicle maintenance work
- \$58,780 favourable variance in Roads & Fleet from winter parking lot maintenance invoice timing and lower equipment rental expenses
- \$31,242 favourable variance in Transportation due to timing of Transit invoices.
- \$27,871 favourable variance in Roads & Fleet as the recovery for Fire vehicle maintenance work was higher than planned.
- \$519,948 unfavourable variance in Roads & Fleet - Winter Control for contracted winter maintenance services due to the number of winter events requiring a call-out to supplement the work of Town staff / ensure Town staff have mandatory rest periods in-between winter maintenance call-outs.
- \$119,793 unfavourable variance Roads & Fleet for Winter Control Salt Management. This leaves 15% of annual budget remaining for November and December.
- \$72,294 unfavourable variance in Roads & Fleet for fuel due to more winter events than budgeted.
- \$45,141 unfavourable variance in Roads & Fleet related to ice storm emergency tree services required.
- \$33,504 unfavourable variance in Engineering due to timing as the net debt repayment is higher than the budget planned for the first quarter.
- \$29,366 unfavourable variance in Finance for Contracted Services mainly driven by timing as more municipal tax consulting work than originally planned for the first quarter was undertaken.

Corporate Accounts

Quarter 1, 2020 unfavourable variance of \$306,742

- \$532,124 favourable variance related to the timing of payment for various corporate and Human Resources contingencies.

- \$66,089 favourable variance for investment income for Q1 will be offset in future quarters due to the decrease in the prime interest rate on investments.
- \$42,827 favourable variance for Insurance Deductible as fewer claims have occurred year to date than planned. This trend is not anticipated to continue throughout the year.
- \$34,838 favourable variance in penalties and Interest on tax arrears being higher than planned for the first quarter. However, penalties and interest charged on outstanding taxes for the remainder of the year is deferred to provide COVID-19 support to the community. In 2020, there will be an expected shortfall in penalty and interest on taxes revenue of \$1,184,185.
- \$895,537 unfavourable variance for Insurance due to timing as the premium is typically paid in April annually (rather than March) with the expense then allocated across different departments \$96,900 unfavourable variance as a result of the timing of payment for various IT Maintenance Contracts.
- \$31,976 unfavourable variance in Ontario Municipal Provincial Funding Grant revenues related to timing. It is expected that the planned grant revenue will be received in 2020.

FINANCIAL IMPLICATIONS

At the end of three months (January to March, 2020), the Town is showing a \$731,229 favourable operating variance.

Included in the \$731,229 favourable variance is a \$96,696 favourable variance for the Building Services division which is due to less expenses than anticipated for the first quarter of 2020. However, under Bill 124 of the *Building Code Act*, the Building division operates at full cost recovery and any surplus or deficit in the division is accounted for by a transfer to/from the Building Permit Stabilization Reserve fund. Accordingly, there will be no impact to the Town's year-end financials from the Building division variance.

The current uncommitted balance in the Building Permit Stabilization Reserve fund is \$4,316,123.09

Finance and department staff will continue to review the Town-wide budget to actual variances and conduct a year end forecast for Q2 ending June 30, 2020 and report the results to Council in August.

As noted previously, many Town facilities were closed to the public starting March 14, 2020. The financial impact of the COVID-19 pandemic will be more reflective in the Quarter 2 (January to June, 2020) financial results. Staff are working on an August Council report, the Quarter 2 Operating Budget Variance Report. It is anticipated that revenues will be mainly unfavourable in the Quarter 2 report as:

- Recreation facilities have been closed since March 14, 2020. As at the end of May, the recreation division, overall, is showing an unfavourable revenue variance of over \$750,000.
- Further, once recreation programs resume, the net cost of each program will likely be higher than budget due to lower participant to staff ratios required for necessary safety precautions.

The Town also has un-planned COVID-19 pandemic related expenditures such as additional cleaning services, sanitization supplies, and technology expenditures to allow staff to effectively work from home and to provide more services online (e.g. virtual Council meetings, electronic submission of Building Permit and Development applications).

To offset the projected impact of the above, the Town has implemented cost containment and cash flow/financial liquidity measures including:

- Placing some full-time and part-time staff on Declared Emergency Leave;
- Placing a freeze on recruitment with the exception of essential services (such as front-line road operations staff); and
- Deferring expenditures related to 43 capital projects to 2021.

The August Council report will include a detailed impact of COVID-19 on the Town's the financials from January to June 2020 and provide a 2020 Operating Budget projection.

Also, in August, staff will provide a full capital status report (for the period ending June 30, 2020 and an update on open capital projects).

COUNCIL WORK PLAN

Subject matter is not relevant to the Council Workplan.

ATTACHMENTS

Schedule A: 2020 Q1 Operating Budget Variance