

Staff Report 2023-0243

Meeting Date: June 6, 2023
Subject: 2022 Year-end Operating Budget Variance Report
Submitted By: Josey Daley, Financial Analyst, Finance

RECOMMENDATION

That the remaining Engineering Services Automated Speed Enforcement budget of \$39,249.00 be carried forward to the 2023 budget to be used for the Administrative Monetary Penalty Regime Framework Report through a draw from the Tax Funded Operating Contingency Reserve; and

That the 2022 operating surplus of \$4,927,006 be transferred to the following reserves:

- a) \$154,249 to the Firefighter Post-Retirement Benefits Reserve;
- b) \$3,821,078 to the Tax Funded Capital Contingency Reserve and
- c) \$1,000,000 to the Tax Funded Operating Contingency Reserve.

REPORT HIGHLIGHTS

- On December 14, 2021, Council approved the Town of Caledon's 2022 budget including a gross operating budget of \$121,488,331.
- By March 31, 2023, each department had performed a review of their 2022 year-end actuals to budget operating variances and provided Finance with explanations for each general ledger account having an operating variance (+/-) \$20,000 or 20%.
- Overall, the Town of Caledon's 2022 net operating budget surplus is \$4,927,006.
- This surplus is driven by increases in revenues due to increases in interest rates and increases in property tax related revenues.
- Early 2022 operations in some areas were still affected by the COVID-19 pandemic and mandated restrictions.
- The recommended year end surplus management outlined in this report will allow the Town to allocate some one-time revenues to the depleted Tax Funded Capital Contingency Reserve and provide for a top up to the Tax Funded Operating Contingency Reserve.
- The year-end operating results included specific COVID-19 pandemic-related cost incurred totaling \$530,820 for the year.

DISCUSSION

Overview

The purpose of this report is to provide an overview of the 2022 year-end actual results as compared to its operating budget with explained variance.

The Town's budget is established annually, and a variance analysis is conducted regularly to see how the Town is trending towards its established budget. This report shows how the Town is doing compared to its budget and the reason for any differences. A surplus means that, overall, revenues are higher and/or expenditures are lower than forecast. A deficit would mean that the Town's revenues are lower than expected and/or that expenditures are higher than expected. The Town's overall surplus or deficit is a combination of individual account

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variances. There are typically many reasons for the Town's surplus including labour (salary) gapping, increased revenues than forecast, lower costs, or expenditures than forecast, less materials used etc. Labour gapping primarily occurs when a job position is budgeted for but remains vacant when the incumbent to the position leaves and the Town has yet to be able to hire someone for the role.

Departments are responsible for the delivery of programs and services while managing budgets within the Council approved budget. It is a shared responsibility between Finance and Departmental staff to monitor the operating budget variances.

The Town's Overall Variance Summary

For 2022, the Town's year-end operating surplus of \$4,927,006. The surplus is driven by the following:

- interest income from investments due to higher interest rates;
- penalty and interest from property tax arrears;
- savings from lower Salaries and Benefits expenses; and
- timing difference resulting from delays in service contracts and other general operating expenses.

The overall major variances to budget the Town experienced in 2022 were as follows:

- \$3.8 million favourable variance in salaries and benefits due to salary gapping, vacant positions, and delay in hiring for vacancies across the Town.
- \$2.6 million unfavourable variance in user fees and rental revenue across the Town mainly due to facility related closures due to the pandemic and engineering and building fees that came in under budget due to timing of MW2 developments.
- \$0.7 million favourable variance related to supplementary property taxes mainly due to higher than budgeted residential assessments made by the Municipal Property Assessment Corporation (MPAC).
- \$2.1 million net favourable variance in investment income mainly due to significant increase in interest rates that occur in 2022.
- \$1.3 favourable variance in interest earned on Reserves in corporate accounts
- \$0.5 million favourable variance for Penalties and Interest due to an unplanned increase in taxes receivables.

Further details of this variance are discussed in the department overview section of this report and provided in the Schedule C.

Based on year end results, the Town has a 2022 operating surplus of \$4,927,006. As noted in the Staff Report T2 2022 Operating Variance and Year-end Projection 2022-0432 dated on December 6, 2022, overall year-end was forecasted at a surplus in the range of \$2.282 million (including any forecasted transfers to and from reserves). There is a significant favourable variance of \$2,644,674 when comparing actual surplus of \$4,927,006 to the projected year end surplus of \$2,282,332 per staff report 2022-0432.

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The main reason for this change is due to the following:

- \$944,265 favourable variance in interest earned on investments and reserves due to the significant increase in interest rates.
- \$114,778 favourable variance for Penalties/Interest on property taxes due to greater number of late property tax payments than forecasted.
- \$232,296 favourable variance related to supplementary property taxes mainly due to higher than forecasted residential assessments.
- \$716,510 favourable variance in salary gapping being higher than forecasted.
- \$314,195 unfavourable variance in Recreation Revenues with actuals being much lower than anticipated
- \$433,305 favourable variance in Fire revenues from accident, false, alarm, user fees & rentals being higher than forecasted

In Staff Report 2023-0243, department managers provided projections and comments to Finance based on actual revenue and expenditure financial information for the year 2022. Expenditures include contributions to reserves which appear as an expense and increase reserve balances providing for the long-term financial sustainability of the Town.

Recommendations to Council

Some items, as outlined in the financial implication section of this report, require Council authorization. This includes the movement of funds in or out of a reserve. This report is requesting Council to do two things:

- Carry forward the unused Engineering Services ASE budget of \$39,249 to the 2023 budget to be used for the Administrative Monetary Penalty Regime Framework Report
- Allocate the year end surplus to the Town's Reserves

Further details are included in the Financial Implication section of this report.

Department Overview

Relevant explanations of the 2022 Year-end Operating Budget Variance are provided through the combined efforts of Finance and departmental staff. Detailed comments regarding the year end operating budget variance are included in Schedule C.

Staff within each department is responsible for the delivery of programs and services while managing their budgets within the Council-approved 2022 operating budget. While accountability for financial performance (e.g., actual revenues and expenditures) belongs with the Corporate Leadership Team (CLT), both Finance and department staff share the responsibility of monitoring operating budget variances throughout the year.

Based on the year-end financials, the Town has a \$4,927,006 net favourable operating variance comprised of a \$4,554,624 favourable variance in revenues and a \$372,382 favourable variance in expenditures (refer to Schedule B to this report). It provides an overview of the year-end operating budget variance by department and by revenues/expenses. The

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report is further broken down by division within each department and is available on Schedule A of this report.

Emergency Cost and Safe Restart Funding

Emergency Cost Incurred due to COVID-19

The 2022 year-end financials include specific costs that were identified as being related to the pandemic. These were included in the 2022 budget to be funded from the Safe Restart funding received from the Provincial Government. Costs include cleaning supplies, contracted services for enhanced cleaning services, personal protective equipment (PPE) including masks and gloves, plexiglass barriers, and technology investments to support staff seamlessly working from home. Any continued costs in 2023 were identified in the 2023 budget to be funded from the remaining Safe Restart funding available in the Operating Contingency Reserve. These funds will be depleted in 2023.

Table 1: Pandemic Emergency Costs Summary

Department	Actual expenses (as of end of Dec) (\$)	Types of Expenses
Fire & Emergency Services	\$52,546	COVID-19 safety supplies and protective equipment such as disposable and cloth masks, cleaning supplies for the fire stations and vehicle cleaning.
Operations	\$8,165	PPE, cleaning supplies, signage, plexiglass barriers Additional vehicle cleaning and sanitization for Yard Fleet.
Corporate Strategy & Innovation	\$98,423	Workforce Planning related to Town hall utilization and hybrid work policies
Corporate Services	\$42,747	Jr. Coordinator to assist with the shift in how business is conducted as a direct impact of the pandemic, PPE
Customer Service & Communications & Economic Development	\$17,342	Wages and benefits for greeters (January) and wages and benefits for Marketing Coordinator (Economic Development) to assist local businesses and promote tourism during the pandemic.
People Services	\$46,988	Wages and benefits for Associate, Health & Safety
Planning	\$161	COVID-19 supplies
Community Services	\$214,074	COVID-19 safety supplies and protective equipment such as masks, cleaning supplies and sneeze guard. Contracted security services at town facilities. Reassigned additional responsibilities to staff.

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Department	Actual expenses (as of end of Dec) (\$)	Types of Expenses
Building & Municipal Law Enforcement Services	\$136	PPE, courier costs
Caledon Public Library	\$9,003	Ongoing procurement of sanitizing supplies/PPE and operating costs of community connectivity kits.
Corporate Accounts	\$41,235	Cloth and disposable masks for majority of Departments, cleaning supplies and enhanced cleaning services, IT related such as Hotspots, WebEx, Bell conferencing
Total	\$530,820	

Safe Restart Funding

The Town received 2020 and 2021 funding from the federal and provincial government to assist with 2021 and 2022 COVID-19 Operating costs and pressures. To date the Town has received total of \$4,525,843 as shown in Table 2 below to assist with COVID-19 related cost and budget pressures.

Table 2: COVID-19 Municipal Operating Funding

Safe Restart funding Phase 1 Allocation (2020)	\$1,458,100
Safe Restart funding Phase 2 Allocation (2021)	\$1,098,000
2021 Provincial COVID-19 Recovery Funding for Municipalities	\$1,969,743
Total Funding	\$4,525,843
Total Funding allocated to 2021	(\$3,260,942)
Unused COVID-19 Funding Balance as at Dec 31, 2021	\$1,264,901
Total pandemic expenditures in 2022	(\$530,820)
Total COVID-19 Funding Balance at Dec 31, 2022	\$734,081

These funds will be expended in 2023 for similar expenses as outlined in the 2023 approved budget.

Next Steps

To improve relevance and efficiency of regular reporting to council, staff will continue to report operating variances to Council on a Tri-annual basis. Staff will be providing following update on Operating and Forecast variances for 2023:

- Tri-annual Operating Variance report for period ending April 30th
- Tri-annual Operating Variance and Forecast report for period ending August 31st
- Year-end Operating Budget Variance report for December 31st

FINANCIAL IMPLICATIONS

Administrative Monetary Penalty Regime Framework Report

Staff report 2022-0376 approved the creation of an Administrative Monetary Penalty (AMP) Implementation Framework Report, funded to an upset limit of \$100,000 from the Engineering Services ASE Budget. To complete this report, staff are recommending that the unspent funds of \$39,249 be carried forward to the 2023 budget. This will be done by contributing the remaining budget to the Operating Contingency Reserve and a drawing from this reserve to fund the remaining work in 2023. This project is only the report. Further requests will be made to Council to implement the program once the framework is complete.¹

Year End Surplus

After the surplus is allocated to the reserves as recommended, their balances will be as follows:

Reserve Fund	Unaudited Uncommitted Balance as of May 1, 2023	2022 Operating Surplus – Recommended Reserve Funding	Uncommitted Reserve Fund Balance - after surplus transfer
Post-Retirement Benefits to age 65 for Full-Time Firefighters	\$221,651	\$154,249	\$375,900
Tax Funded Operating Contingency Reserve	\$2,470,002	\$1,000,000	\$3,470,002
Tax Funded Capital Contingency Reserve	\$872,123**	\$3,821,078	\$4,693,201

**Projected balance includes draw for Strawberry Hill Retaining Wall passed by Council on May 23, 2023 of \$2,500,000

COUNCIL WORK PLAN

Subject matter is not relevant to the Council Workplan.

ATTACHMENTS

- Schedule A: 2022 Year-end Operating Budget Variance by Department/Division
- Schedule B: Summary of 2022 Year-end Operating Budget Variance by Department
- Schedule C: Departmental Overview of Variances