BUDGET COMMITTEE **FEBRUARY 6, 2006**

2006 THIRD QUARTER OPERATING BUDGET REPORT

Recommendation

The Commissioner of Finance & Corporate Services, and the Acting Director of Budgeting and Financial Planning in consultation with the Senior Management Team, recommend:

That the 2006 Third Quarter Variance Report be received for information purposes.

Purpose

To report the year-to-date results versus the operating budget as of September 30, 2006

Background - Analysis and Options

The attached third quarter variance report compares the current status of both departmental and corporate expenses and revenues for the nine-month period ending September 30, 2006, relative to the 2006 year-to-date operating budget. The year-to-date operating budget is calendarized based primarily on the spending patterns of last year. This variance report is prepared on a partial accrual basis, where only major revenue streams or expenditures not booked, but incurred to date, have been estimated and accrued.

The combined excess of revenues over expenses, (balances transferred to reserves as per policy), is not directly indicative of the final year-end surplus; it measures the excess of revenues over expenses at a point in time and may be eroded due to unforeseen events such as winter storms in the latter part of the year, an economic downturn, or a delay in the timing of expenses, which will occur in the remaining part of the year.

Third Quarter Ahead of Budget

At the end of the third quarter, the excess of revenues over expenses was $2.9m. This result is comprised of revenues being $2.7m ahead of budget and expenses below budget by $.2m. The $2.9m or 1.7% is a positive variance. The main areas that contributed to the positive variance are summarized below.

		$M's
Revenues		
Reserve Transfers		(0.5)
Fees & Service Charges		3.2
Corporate Revenues		(0.5)
PIL / Supplemental Taxes / Other		0.5
Total		2.7
Expenses		
Departmental Expenses:		
Fire	0.4	
Budgeting & Financial Planning	0.2	
Enforcement Services	0.2	
Recreation	0.3	
Building & Facilities	0.3	
Building Standards	0.4	
Economic & Business Development	(0.1)	
Engineering and Construction Services	0.2	
Public Works	0.3	
Library	0.3	
Other – (various departments)	0.9	3.4
Corporate Expenses		(3.2)
Total		0.2
Year-To-Date Revenues Net of Expenses		$2.9M

The City's annual Operating Budget is $167,613,385. As previously stated the $2.9m represents a variance of 1.7%.

Listed below are explanations for significant revenue and expenditure variances. It should be noted that issues identified in this report are relatively consistent with those illustrated in the second quarter report.

City Manager

Fire & Rescue Service Revenues Unfavourable $(148,854)

Unfavourable revenue realized by Fire Operations is attributed to a lower volume of billable incidents and exercising more discretion with respect to billing.

Fire & Rescue Service Expenditures Favourable $354,040

The primary reason for this favourable variance was related to salary cost savings due to staffing vacancies. This was slightly offset by unfavourable variances in material and volunteer firefighter accounts largely due to budget vs. actual timing differences.

Commissioner of Finance and Corporate Services

City Financial Services Expenditures Favourable $102,480

The primary reason for this favourable variance was due to salary cost savings and favourable positions in contract and training & development accounts.

Budgeting & Financial Planning Expenditures Favourable $171,189

Significant salary cost savings related to vacancies in the Director and Manager of Financial Planning positions created the favourable variances and will disappear when positions are filled.

Commissioner of Legal and Administrative Services

Comm. of Legal and Administrative Services Expenditures Unfavourable $(35,969)

The variances were due to furniture & computer hardware for the new Commissioner starting in January 2006, as well as salary variances resulting from the former Commissioner's salary overlapping with the new Commissioner's salary. These are all 'one-time' circumstances 2006.

Clerks – Licensing Revenues Favourable $150,180

This favourable variance was a result of earlier than anticipated revenue bookings, likely caused by the change in taxi, tow truck, eating establishment, public garage and other license renewal periods. This trend is not expected to continue and correct itself by year-end.

Clerks – Committee of Adjustment Revenue Favourable $139,373

Committee of Adjustment's projected revenue for the first nine months was $139,373 was up due to a higher than anticipated increase in the number of Committee of Adjustment applications processed.

Clerks Expenditures Unfavourable ($24,020)

Most account variances are offsetting and related to associated licensing revenue and expenditures. The primary cause for the unfavourable variance was due to an increase in temporary staffing costs resulting from a paid leave of absence.

Clerks – Insurance Expenditures Favourable $128,968

This variance relates to lower than anticipated insurance premiums. It is anticipated that this trend will continue and unless significant claims are experienced the favourable position should stand at year end.

Legal Services Expenditures favourable $122,861

The favourable variance is principally found in the salary/wages and benefits lines. This was due mostly to salary gapping. The remaining portion of variance is due to a favourable position in professional fees which may be required in the fourth quarter.

Enforcement Services Revenue Unfavourable $(596,191)

Similar to the trend experienced in the second quarter, departmental revenues were lower than budget due primarily to two factors. First, the department has experienced an unprecedented staff turn over in the business units that primarily produce revenue. These business units have been operating at less than 70% capacity. Secondly, existing staff have been redeployed to special projects and initiatives, which resulted in lower than anticipated revenue expectations. These circumstances are anticipated to continue for the remainder of the year.

Enforcement Services Expenditures Favourable $153,146

This was due primarily to savings in salary lines as a result of staffing vacancies.

Commissioner of Community Services

Comm. of Community Services Expenditures Favourable $184,525

The 3rd quarter favourable variance lies principally in professional fees and sundry expense accounts and is a result of expenses occurring later than originally forecasted i.e. Winterfest, symposium in Ottawa, sponsorship appreciation night, etc.

Communities in Bloom Sponsorship Unfavourable $(15,000)

This variance relates to sponsorship monies being sought for the Winterlights Celebration Program, which runs from the end of September to December 2006. In line with event timing, it is anticipated that sponsorship funding will be collected in the fourth quarter.

Recreation Revenues Favourable $415,421

Strong performance in some key areas such as fitness memberships and permits resulted in a slight favourable variance for the 3rd quarter. Barring any unforeseen circumstances, it is anticipated that the year end numbers will be close to projections by the year end.

Recreation Expenditures Favourable $289,106

The primary reason for the 3rd quarter favourable variance is due to staff gapping earlier in the year. The 4th quarter will continue to show these expenses being actualized.

Building and Facilities Expenditures Favourable $336,153

The overall favourable variance can be explained by salary related savings resulting from staffing vacancies and the rescheduling of repair/maintenance projects to the latter half of the year. It is anticipated that the overall Building and Facilities budget will come in favourable or on target at year-end.

Parks /Forestry Operations Revenues Unfavourable $(152,357)

A significant portion of the unfavourable variance stems from a prior year invoice reallocation to the capital fund, which reduced the amount of year to date revenue reported. In addition, revenues for the Asian Long-Horn Beetle program are anticipated to come in slightly under budget. This pattern is expected to continue for the remainder of the year.

Parks/Forestry Operations Expenditures Unfavourable $(68,347)

Most account variances are offsetting and related to back filling full-time vacancies with part-time staff and budget timing differences in contract materials and internal charges/recoveries. The unfavourable variance was largely attributed to utilities exceeding annual projections caused by additional field lighting and park infrastructure servicing. Overall net department expenditures should come in relatively close to budget by year end.

Commissioner of Planning

Community Planning Revenue Favourable $525,496

The favourable planning application revenue variance was a result of an increased activity in official plan amendment, subdivision and condominium applications. This trend is continuing and expected to grow through to year-end.

Building Standards Revenues Favourable $2,497,552

Building permit volumes received during the first three quarters of the year were higher than anticipated when forecasted. Even with the recent softening of the new home sales market the department is significantly exceeding projected year-end budgeted revenues. This trend is continuing and expected to further outpace budget by year-end.

Building Standards Expenditures Favourable $354,476

The majority of the variance relates to vacancies in full-time positions. The position of secretary to the Director of Building Standards was just recently filled with a start date late October/early November. Two of four vacancies in plans review were filled in the first quarter and the remaining vacancies just recently filled in third quarter. In addition, there are three new positions in response to the performance and service delivery times legislated by the province, which will not likely be hired until 2007. It is anticipated that the current favourable variance will stand at year end.

Commissioner of Economic and Technology Development and Corporate Communications

Comm. of ETD and Corporate Communications Expenditures Unfavourable $(679)

The Commissioner’s vehicle lease expired early January 2006, resulting in a new lease effective February 16, 2006. With the start of a new vehicle lease, there were resulting one-time costs of $2,763, i.e. security deposit, taxes, administrative costs, and first month payment. The above unfavourable variance is offset by savings in other accounts i.e. cellular telephone charges, etc.

Economic and Business Development Expenditures Unfavourable $(104,802)

A significant portion of the department variance was attributed to city promotion overspending due to the unbudgeted business recovery program related to the road collapse, which occurred in February. In addition, higher than budgeted tourism expenses were incurred to carry out the approved tourism program, which are partially offset by Vaughan bash contributions, as well as from funds left over from previous years' Bash events. The journal transfer will occur in late December 2006. The remaining unfavourable variance is credited to a salary cost misallocation that should be corrected by year-end.

Information and Technology Management Expenditures Unfavourable $(71,583)

Most account variances are offsetting and related to additional part-time resources required to handle the workload of existing full-time vacancies. However, the unfavourable third quarter showing is a result of service contracts and communications costs occurring earlier than originally calendarized. This variance is not anticipated to continue to year-end and has shown considerable improvement over 2nd quarter results.

Corporate Communications Expenditure Unfavourable $(26,883)

The majority of the variance is found in the contractor and contract materials lines, which has exceeded the annual budget amount, as a result of more events hosted this year than last year, including several unbudgeted parkette openings, flag raisings, and program launches such as the Curb Appeal initiative. An unfavourable variance was also experienced in professional fees due to sponsorship program costs (e.g. Winter Fest, Canada Day, and Concert in the Park). The above variances were partially offset by savings in advertising, materials & supplies, and other accounts. It is anticipated the department will end the year in a favourable position as anticipated savings in other account lines will compensate for the overages experienced in contract and professional fee accounts.

Commissioner of Engineering and Public Works

Engineering Services Revenues Unfavourable: $(6,591)

The unfavourable third quarter position is due to lower than anticipated recoverable-external revenue levels. This resulted from developers being more responsive to chargeable conditions within the subdivision agreement.

Engineering & Construction Services Expenditures Favourable $166,485

Approximately half of the favourable variance is found in the salary/wages and benefits lines, due mostly to delays in hiring staff (new and replacement). Contractor & contract maintenance were also favourable as traffic signal maintenance and pavement marking contracts were awarded in late summer causing costs to occur later than originally calendarized. Since 2nd quarter this variance has moved more inline with budget projections.

Public Works Revenues Favourable $133,041

The favourable revenue variance is attributed to higher than anticipated WDO recycling grant funding and a slight increase in demand for blue boxes. The WDO recycling program is relatively new and given funding allocations are to be determined at the regional level, preliminary revenue targets were conservatively estimated. This trend is expected to continue and the favourable variance will like stand at year-end.

Public Works Expenditures Favourable $341,940

Similar to the trend experienced in the second quarter, departmental expenditures were lower than budget due primarily to three factors. Firstly, the bulk of the department variance experienced was due to a favourable position in the contract accounts largely created by the timing of winter control events. Secondly, a significant favourable variance resulted from staffing savings caused by vacancies. Thirdly, savings were experienced in utilities related to unrealized anticipated growth in unassumed subdivision activities. Most of these circumstances are anticipated to continue for the remainder of the year.

The above favourable variances were partially offset by unfavourable variances in promotion & education, dumping charges, and internal recoveries. Promotion & education variances will be corrected when payments for the greening Vaughan initiative are transferred to the capital at year end.

Library Expenditures Favourable $344,509

The 3rd quarter favourable variance principally lies in salary savings due to gapping and delays in replacing vacant positions, timing of internal service billings, and deferred spending in computer, office supplies and resource accounts.

Payment in Lieu & Corporate Revenues

Payment in Lieu revenues are favourable $383k and have currently exceeded the annual budget. This was principally due to an improved collection effort and recent confirmation of property assessment additions. Although actuals have significantly exceed budget, the account position has stabilized and further performance gains are not anticipated.

Corporate revenues are unfavourable by $490k for the first nine months of 2006, largely linked to unfavourable investment income performance. In addition, Hydro investment third quarter results were also under budget, due to timing differences that will be rectified at year-end. The above unfavourable corporate revenue showings are mitigated by favourable fine and penalty results due to improved collection efforts and the expanding tax base.

Corporate Expenditures

Corporate expenditures were unfavourable by $3.1m for the first nine months of 2006. A significant portion of this balance is due to a substantial transfer to the building standards continuity reserve resulting from higher than anticipated building code permit revenue. As of July 1, 2005, Bill 124 imposed cost and price restrictions on the building code permit fees to the extent that revenues cannot exceed reasonable and anticipated costs. For this reason revenue surpluses are transferred to the reserve, as per the City's policy, to provide future service continuity when expenses eventually outpace revenues. The above mentioned trend is anticipated to continue and will result in additional transfers at year-end.

An unfavourable position was also experienced in tax adjustments due to a projection timing difference, but it is anticipated that tax adjustments will come in on target at year end.

The remaining portion of variance was anticipated since "salary gapping" savings are budgeted under corporate expenses, but actual savings are realized within the respective individual departments. However, this is mostly offset by favourable variances experienced in unallocated benefits and elections costs.

Revenue from Reserves

Revenues from reserves were $498k under budget. Transfers to reserves are often tied to departmental expenses. If departments are lower than budgeted, this in turn reduces the requirement for reserve transfers to the operating budget. In addition, a transfer from the Planning Reserve was not required as planning revenues performed well and the City was in an overall favourable position. The combined impact of the above was minimized as Finance from Capital funding exceeded budget.

Capital from Taxation

Capital projects funded from taxation were over spent by $50k. The overage was a result of additions to the proposed budget by Council, which will be funded through surplus.

Relationship to Vaughan Vision 2007

The report is consistent with the priorities set by Council and the necessary resources have been allocated and approved.

Conclusion

Based on the year-to-date budget for the Third Quarter of 2006, the excess of revenue over expenditures was $2.9m. This excess is a point in time measure and may not be indicative of any potential actual year-end excess. In addition, over the past few years the operating budget has relied on prior year's surplus of $2.5m to assist in balancing the budget. It is uncertain at this time if $2.5m will be available in the 2006 year-end surplus to be utilized in the 2007 Operating Budget.

Attachments

Attachment 1 – 2006 Third Quarter Variance Report

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Respectfully submitted,

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