

MUNICIPALITY OF CHATHAM-KENT

CORPORATE SERVICES

BUDGET AND PERFORMANCE SERVICES

TO: Mayor and Members of Council

FROM: Bonnie Petrusenko
Budget Analyst

DATE: January 15, 2008

SUBJECT: Third 2007 Budget Variance Forecast

RECOMMENDATIONS

It is recommended that:

1. One-time budget maintenance for account code activity as detailed in Appendix C be approved.
2. The forecasted deficit of \$239,500 be monitored and managed by administration through adjustments to the encumbrance reserve to ensure there is not an operating deficit for 2007.
3. Final year-end reserve budget transfers be approved as part of the final 2007 budget variance report to be completed in April or May 2008.

BACKGROUND

The ongoing financial reporting process to Council involves the following:

- Monthly financial summaries:
Corporate Services produces a summary of each department's month end financial position. This report is included in Council's information package approximately mid-month. The purpose of these reports is not to project year-end surpluses/deficits but to update Council and administration as to the financial position at each month end.
- Budget variance reports:
The purpose of budget variance reports is to project the year-end financial position of Chatham-Kent on a department by department basis. Each department reviews and forecasts its budget on a line by line basis. For 2007, administration is to provide Council with budget variance reports for the period ended May, August, and October.

In a report to Council dated June 28, 2000, Council approved the policy to transfer annual operating surpluses in Health & Family Services to the reserves for future economic downturns, and building capital for the redevelopment of the Long Term Care Facility. This policy was subsequently extended to include ambulance, social housing and public health issues. This report recommends the continuation of this policy.

This report has also been modified to include comments on budget overruns based on a motion approved by Council in April 2007,

“That the following budget overrun limits (net of associated revenues) are not to be exceeded without prior approval by Council:

- i) departmental budgets limited to 0% overrun;
- ii) divisional budgets limited to 2% overrun;
- iii) each budget code within any division limited to the greater of 10% overrun or \$10,000 overrun;

Notwithstanding the above limits, in exceptional circumstances the CAO may authorize these overruns and report to Council at the earliest opportunity.”

COMMENTS

Administration monitors the operating budget on an ongoing basis and as with any forecast; the variance projections will become more accurate as the year unfolds. Significant use of estimates, historical knowledge and judgment is used in projecting budget vs. actual variances to year-end. Material fluctuations in the projections can occur if unforeseen activity is experienced in the local economy, e.g. social assistance caseloads, increase in fuel prices, etc.

The following three sections provide explanations of the variance:

- A) Departmental
- B) Divisional variances > 2% overrun
- C) Divisional budget codes >10% overrun

A) Departmental:

The October 2007 budget variance is forecasting a deficit of \$239,500 and is detailed in Appendix A. The issues have been identified in Table 1 as follows:

TABLE...1 Departmental Summary of Projected Budget Variances

<u>Department</u>	<u>Budget Variance surplus or (deficit)</u>	<u>Comments</u>
Non Departmental	\$1,500	Increased costs – LTVCA requisition, social benefit cost allowance, write offs (net of natural gas rebate, budget maint, interest revenue)
CAO & Office of the Mayor	\$11,100	Wage related
Fire Services	(\$305,100)	Increased costs – volunteer call volume, replacement re protective clothing /medical supplies
Economic Development Services	\$65,200	Wage related, decreased travel/promotional expenses
Corporate Services	\$318,000	Wage related vacancies, increased revenues – property sales, admin fees local improvements, increased costs self insurance Workplace Safety issues (may require year end reserve transfer)
Health & Family Services	(\$162,500)	Increased caseload projections
Infrastructure & Engineering	(\$95,000)	Fuel, capital replacement costs for fleet, airport beacon (net of transit revenue, WDO funding)
Community & Development Services	\$1,100	Wage related, decreased POA court and cemetery revenue, increased costs theatre programming, hydro
Police Services	(\$73,800)	Wage related
Total projected deficit	(\$239,500)	

This variance projects the year's activities based on activities that have occurred in the first ten months of operations. Major components of the projected deficit of \$239,500 are one-time issues relating to caseload increases, social benefit costs, increased costs in the Workplace Safety Insurance (WSIB) area, fire services call volume issues, and police services wage issues.

Final year end adjustments may occur within departments regarding the self insurance area for Workplace Safety Insurance (WSIB). At this time, we are not including the reserve transfer, further recommendations will be included in the final year-end report.

As well, final costs have not been included for the winter storm in December. There is currently a snow removal reserve of \$700,000 available for these occasions.

B) Divisional:

Appendix B details by division the 2007 Gross, Revenue and Net Budget; October Variance; Calculated %, RTC exceptions overruns >2%, reporting required for budget code overruns and explanation of variances. The following explanations have been provided by the divisions regarding budget overruns >2% along with mitigating steps that have/or will be put in place to mitigate the projected variance.

Non Departmental, overall surplus of \$1,500. The following divisional activities exceed a budget overrun of 2%:

Grants & Requisitions		Mary Lou McLeod/Stuart Wood
Net Final Budget	\$1,999,597	
Projected Deficit	(\$44,500)	
Calculated %	-2.2%	

The projected deficit is mainly due to the requisitions from Lower Thames Valley Conservation Authority and the St. Clair Regional Conservation Authority. Supplementary requests for increases per the conservation authorities have risen much higher than the budget provisions due to assessments for special projects.

Financial Expenses		Mary Lou McLeod/Stuart Wood
Net Final Budget	\$2,934,813	
Projected Deficit	(\$202,300)	
Calculated %	-6.9%	

The projected deficit is the result of increased write offs relating to assessment review board adjustments.

Fire Services, overall deficit of \$305,100. The following divisional activities exceed a budget overrun of 2%:

Fire Services		Bob Crawford
Net Final Budget	\$9,888,496	
Projected Deficit	(\$305,100)	
Calculated %	-3.1%	

The projected deficit is mainly the result of Volunteer firefighter call volume - medical and fire calls. Call volume is difficult to forecast. The medical tiered response criteria was amended and approved by Council in September. The impact of the change will be monitored and reflected in the final variance report.

Corporate Services, overall surplus of \$318,000. The following divisional activities exceed a budget overrun of 2%:

Human Resources		Cathy Hoffman
Net Final Budget	\$2,524,659	
Projected Deficit	(\$62,500)	
Calculated %	-2.5%	

There has been a net increase in the corporate claim activity costs in the self insurance area of WSIB. It is anticipated that this volume is not representative of a normal year. The Board is processing some prior year costs for pension awards and medical costs. This is further detailed in the budget code variance section. The May variance projected a deficit of \$37,000, the August variance reflects a further increase of \$100,000. In addition, the October variance is forecasting a further increase of \$62,000. It is recommended that a transfer from the reserve fund occur at year-end, once there has been a reconciliation with the operating departments.

Health & Family Services, overall deficit of \$162,500:

Ontario Works		Val Colasanti
Net Final Budget	\$ 6,896,868	
Projected Deficit	(\$162,500)	
Calculated %	-2.4%	

Based on the first ten months, it is projected that the caseload activity may increase by 8%. It is suggested that no action be taken at this time to fund this projected shortfall from the reserve, however this activity will be monitored and reported on in the final variance.

Infrastructure & Engineering Services, overall deficit of \$95,000:

IES Admin		Leo Denys
Net Final Budget	\$ 0	
Projected Deficit	(\$2,100)	
Calculated %	N/A	

This projected deficit is the result of five months rental of an overflow parking area for staff. This contract was discontinued following the 2007 Budget process.

Fleet Management		Tim Dick
Net Final Budget	\$ 0	
Projected Deficit	(\$169,800)	
Calculated %	N/A	

This projected deficit is the result of fuel price trends increasing in the last half of 2007. Also, fleet capital replacement costs have increased due to the increased number of active vehicles to date as per the 1999 Fleet Business Plan. This process is being reviewed as part of the Fleet Business Plan update that is currently in process.

Public Works - Airport		Pat Bruette/Wayne Pollock
Net Final Budget	\$81,249	
Projected Deficit	(\$20,500)	
Calculated %	-25.2%	

The projected deficit is due to the wind energy project taking place which required an upgraded airport beacon. Kruger Energy did contribute a portion of the costs, and this amount represents CK's portion for design/installation/equipment.

Public Works – Sidewalks		Pat Bruette/Wayne Pollock
Net Final Budget	\$95,491	
Projected Deficit	(\$6,400)	
Calculated %	-6.8%	

This deficit is due to increased costs for Dresden sidewalk maintenance. The deficit is offset by a surplus in Roadways.

Community & Development Services, overall surplus of \$1,100. The following divisional activities exceed 2% overrun:

Culture & Special Events		Janet Raddatz
Net Final Budget	\$1,042,111	
Projected Deficit	(\$30,600)	
Calculated %	-2.9%	

This deficit is mainly due to theatre programming costs (primarily artist fees) at the Kiwanis Theatre. A budget information report has been drafted to explain in detail the recurring deficits in this area, and a plan to offset this deficit. In addition, a Cultural Centre Master Plan has been scheduled for 2008, which will address operational changes required in order to meet budget.

Parks, Cemeteries, and Horticulture		Tom Beaton
Net Final Budget	\$2,090,442	
Projected Deficit	(\$61,800)	
Calculated %	-3.0%	

This deficit is mainly due to a decrease in cemetery revenue . Cemetery lot sales have decreased. Sales have not met business plan expectations. The division is investigating/exploring options to rectify revenue issues.

Provincial Offences Court		Ron Stead
Net Final Budget	(\$672,660)	
Projected Deficit	(\$125,900)	
Calculated %	-18.7%	

This projected deficit is based on current activities to date for POA revenue. This issue will continue to be monitored by the department and operations adjusted accordingly.

C) Budget Code Overruns > \$10,000 or 10%

As per the motion approved by Council in April 2007, new reporting is being introduced for budget codes within a division that has an overrun limited to the greater of 10% or \$10,000 (net of associated revenues). Reports have been developed and included as Appendix C that outlines the division's budget codes, amount and percentage of overrun, overall status of the department and division, description and offset and action required.

In developing these reports and explanations, a fair amount of time has been spent with the managers by the budget department to identify by budget line variances to offset overruns, etc. Accordingly, a section has been included that outlines recommendations to adjust for the projected variances. In the past, departments reviewed and provided for these types of projections without requiring budget adjustments. To assist the managers with managing the budget and variances, the budget code reports include a description of what the issue is, and where applicable, may include recommendations for one-time budget adjustments. These budget entries would be processed by the budget area as one-time issues once Council has approved the variance report and would not affect the base budget. Adjustments required to the base budget would become part of the next year's budget process.

Included in Appendix C are the following thirteen divisions with budget code overruns:

<u>Department</u>	<u>Division</u>	<u>Ref #</u>
Non Departmental	General Revenues	C-1
CAO	Fire Services	C-2
Corporate Services	Human Resources	C-3
Health & Family Services	Children's Services	C-4
	Senior Services	C-5
	Ontario Works	C-6
	Social Housing	C-7
Infrastructure & Engineering	Public Works	C-8
Community & Development Services	Building, Enforcement, & Licensing	C-9
	Culture & Special Events	C-10
	Parks, Cemeteries, Horticulture	C-11
	Municipal Properties	C-12
	Customer Services	C-13

COMMUNITY STRATEGIC PLAN

The recommendations in this report support the following objectives and strategic directions:

- B: Economy – A Prosperous Community
 B1: Promote and market Chatham-Kent

Desired Outcomes:

- Chatham-Kent to be recognized as a municipal leader in responsible fiscal management through manageable tax rate changes and sustainable fiscal planning.

The recommendations will not adversely impact on the remainder of the Community Strategic Plan.

CONSULTATION

Each department compiled and provided comments on its October 2007 variance report and developed options, if necessary, to manage to the bottom line. The Executive Management Team was consulted on the development of recommendations.

FINANCIAL IMPLICATIONS

The following is a summary of the October 2007 budget variance:

Operational deficits:

Fire Services	(\$305,100)	
Health & Family Services	(\$162,500)	
Infrastructure & Engineering Services	(\$95,000)	
Police Services	<u>(\$73,800)</u>	
Total projected operational deficits		(\$636,400)

Operational surpluses to offset deficit:

Non Departmental	\$1,500	
CAO & Office of the Mayor	\$11,100	
Economic Development Services	\$65,200	
Corporate Services	\$318,000	
Community & Development Services	<u>\$1,100</u>	
Total projected operational surpluses		<u>\$396,900</u>
Total forecasted deficit		<u>(\$239,500)</u>

The Executive Management Team is recommending that departments will continue to monitor and manage the forecasted deficit and report with the final variance. It is not being recommended that service level adjustments be made at this time.

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Reviewed by:

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c. Executive Management Team

Attachment

- Appendix A – 2007 Budget Variance – Department Level... October 2007
- Appendix B – 2007 Budget Variance – Divisional Level... October 2007
- Appendix C – 2007 Variance – Account (Deficit) \geq \$10,000 (10%) C1-C17

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