

Municipality Of Chatham-Kent

Finance, Budget and Information Technology Services

Budget & Performance Services

TO: Mayor and Members of Council
FROM: Gord Quinton, MBA, CPA, CGA
Director, Budget & Performance Services
DATE: July 10, 2018
SUBJECT: 2017 Final Operations Variance

Recommendations:

It is recommended that:

- 1) The final audited financial statements provide for the following existing reserve transfers in 2017 requiring approval for audit purposes:

Mandated Reserves:

Building – Bill 124 requirements \$ 854,029

Assigned Discretionary Reserves:

Insurance Risk \$ 49,598

Health Services \$ 57,465

Senior Services \$ 512,423

Public Housing \$ 381,780

Energy Price Fluctuation \$ 804,506

Ont. Works Economic Downturn \$1,038,932

Waste Diversion \$ 221,937

Information Technology Services \$ 60,506

Police Health Benefits \$ 239,481

- 2) Discretionary Reserves be created for the following categories and in the future surplus funds be automatically transferred to:

Recreation Special Populations

Recreation Community Programs

Police Health Benefits

- 3) The final 2017 operating surplus of \$2.2M be allocated as follows:

Reserve for Recreation Special Populations \$ 82,145

Reserve for Recreation Community Programs \$ 65,042

Reserve for Capitol Theatre Improvements \$ 145,443

Reserves for Police Services issues \$ 288,735

Bloomfield Business Park Unfunded Capital Project \$ 500,000

Reserve for Strategic Development \$1,156,645

Total \$2,238,010

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Background:

The final variance report is normally completed along with the audited financial statements. The audited financial statements will be presented to Council in a separate report.

The overall management of the 2017 budget has resulted in a favourable one-time operating surplus of \$2.2M or 0.7% of the gross budget.

This report reflects the existing Council policy to transfer the operating surpluses/deficits in the Community Human Services, Ambulance, Insurance, Energy, Waste Diversion and Building Services Bill 124 areas to reserves. These transfers have been included in the recommendations as part of the audit requirements for reserve approvals.

Comments:

The final 2017 surplus of \$2.2M is recommended to be allocated to reserves with reports to Council prior to any usage of those reserves.

Reserve for Recreation Special Populations \$82,145:

A reserve for Recreation Special Populations be created to bring forward surpluses from the Special Populations fundraising activities and \$82,145 be transferred into it. In the past surplus funds have been brought forward in deferred revenue on the financial statements but it is proper accounting procedures to track these funds in reserves. The amount has accumulated over a number of years. In future years any surpluses will be transferred to the reserve and reported to Council for audit purposes.

Reserve for Recreation Community Programs \$65,042:

A reserve for Recreation Community Programs be created to bring forward surpluses from the Mayor's Annual Golf Tournament or other fundraising activities and \$65,042 be transferred into it. In the past surplus funds have been brought forward in deferred revenue on the financial statements but it is proper accounting procedures to track these funds in reserves. The amount has accumulated over a number of years. In future years any surpluses will be transferred to the reserve and reported to Council for audit purposes

Reserve for Capitol Theatre Improvements \$145,443:

The surplus in the Capitol Theatre budget was mainly a one time issue with a delay in hiring staffing previously approved by Council and in the 2017 budget. Administration is recommending that these funds be set aside for future capital items.

Reserve for Policing issues \$288,735:

The final surplus for Police Services of \$577,470 was mainly the result of staff vacancies. As per past practice 50% of this surplus is allocated to the Police Service Board municipal reserves. The Police Services Board has identified

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potential business plan investments that will require one time funding in the coming years, and accordingly have requested these funds be set aside as follows:

• Police Business Plan Reserve	\$100,000
• Police Mandatory Issues Reserve	\$100,000
• Police Communications Centre Reserve	<u>\$ 88,735</u>
	<u>\$288,735</u>

Bloomfield Business Park Unfunded Capital \$500,000:

The Bloomfield Business Park was constructed in 2005 at a cost of approximately \$15M. Council approved a funding plan consisting of land sale, incremental taxes and anticipated further growth of the park contributing to the initial costs. Including the anticipated sale proceeds of the lands there remains a \$8.5M unfunded capital account (an unfunded capital account is one where all the expenses were paid for from the municipal cash balances but Council has not allocated funding). In 2016 Council set a policy that up to \$500,000 of any annual surpluses not committed to other projects be allocated to the unfunded portion until such time that it is paid in full. It is recommended that \$500,000 of the 2017 surplus be allocated to this unfunded capital account.

Reserve for Strategic Development \$1,156,645:

The remaining surplus funds are recommended to be placed in the Strategic Development reserve for the future needs of Council.

The recommendations in this report also include the approval 2017 posted reserve provisions for the following items:

Mandated Provincial Bill 124 Reserve for Building Permits \$854,029:

Bill 124 mandates that building activities are accounted for separately from municipal activities. Surpluses are reserved with the expectation that, in the event of declining building permit revenue, a draw from the reserve may be required to meet budget. This mechanism provides stability to the pricing of building permits. For 2017 building permit activity exceeded budget and the final year end surplus of \$854,029 was transferred to the Bill 124 reserve.

Insurance Risk Reserve \$49,598:

The surplus in the Risk Management area which included claim recoveries, insurance budget as well as the surplus in the outside counsel budget is being recommended transferred to the Insurance Risk Reserve. This practice will be reviewed annually with the insurer's recommended balance of the insurance risk reserve.

Specific Operational Surpluses:

The operating surpluses in the following areas were transferred to reserves to address current and future operating pressures e.g. economic downturns,

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Provincial service requirements, building issues, rapid technology changes, etc. These areas can be vulnerable to economic and Provincial policy changes.

• Health Services	\$ 57,465
• Senior Services	\$ 512,423
• Public Housing	\$ 381,780
• Ontario Works	\$1,038,932
• Energy Price Fluctuation	\$ 804,506
• Waste Diversion	\$ 221,937
• Information Technology Services	\$ 60,506

Police Health Benefits Reserve \$239,481:

This reserve was created to track WSIB NEER surpluses for Police and \$239,481 was transferred into it for 2017. Similar reserves currently exist for the general municipal NEER surpluses and the Riverview Garden's NEER surpluses. The funds are kept aside for future years where a deficit may occur. The Police Board has approved this practice moving forward.

In addition, a \$70,923 accounting adjustment for 2017 interest charges on the Bloomfield Business Park was booked against the 2017 surplus rather than be re-capitalized and funded from future sales. Council approved this practice in 2008 and it is reported on an annual basis.

The final 2017 variance resulted in an operating surplus of \$2.2M or 0.7% of gross budget and is detailed below. Appendix A includes a breakdown of the variance by Divisions.

<u>Department</u>	<u>FINAL '17 Surplus (Deficit)</u>	<u>Comments</u>
Non Departmental	1,317,340	Tax Write offs and Bloomfield Business Park Interest deficits offset by Grant in Lieu and Investment income surpluses
Chief Administrative Office	228,081	Staffing related surpluses
Mayor, Council & Admin Support	34,814	Conference and car allowance surpluses
Community Development	(271,411)	Fire staffing related deficit offset by legal, building and planning staffing related surpluses
Community Human Services	402,401	Convention Centre operating deficit offset by

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<u>Department</u>	<u>FINAL '17 Surplus (Deficit)</u>	<u>Comments</u>
		Community Attraction and Promotion staffing related surpluses, Capitol Theatre staffing related surpluses, and Recreation Programs Fundraising surpluses (recommended transfer to new reserves)
Corporate Services	129,555	HROD staffing related surpluses, outside legal surpluses and Customer Service staffing related surpluses
Finance, Budget & Information Technology Services	163,306	Financial Services staffing related and tax collection surpluses
Infrastructure & Engineering Services	(343,546)	Public Works winter control, gravel pit and operational deficits offset by waste management and fleet fuel and repairs surpluses
Police Services	<u>577,470</u>	Staffing related surpluses
Surplus	\$ 2,238,010	

Areas of Strategic Focus and Critical Success Factors:

The recommendations in this report support the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

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The recommendations in this report supports the following critical success factors:

- Financial Sustainability:**
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:**
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
 - Has the potential to support all areas of strategic focus & critical success factors
 - Neutral issues (does not support negatively or positively)

Consultation:

Each department has reviewed its 2017 final accounts.

Financial Services provided the final surplus reconciliation and the final reserve allocations for 2017. The audited financial statements will be presented to Council under a separate report.

Financial Implications:

As detailed in this report.

Prepared by:

Reviewed by:

Gord Quinton, MBA, CPA, CGA
Director, Budget & Performance Services

Mike Turner, CPA, CMA
Chief Financial Officer, Treasurer

Attachment: Appendix A – 2017 Final Variance by Division

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MUNICIPALITY OF CHATHAM-KENT		
Variance Report by BU-sector summary-FINAL		
Selected year 2017		
100 CK Municipal Operations		
	2017	2017
	Approved	ADJ FINAL
	Final Budget	VARIANCE
00100 CHATHAM-KENT OPERATING		
Non Non Departmental		
Total Non Non Departmental	-163,411,086	1,317,340
CAO CAO		
Chief Administrative Officer	1,069,227	84,862
Economic Development Services	1,123,889	143,219
Total CAO CAO	2,193,116	228,081
MAY Mayor,Council and Admin Support		
Office of the Mayor/ Council	258,764	7,007
Council, Council Support	677,418	27,807
Total MAY Mayor,Council and Admin Support	936,182	34,814
CD Community Development		
Community Development - Admin	287,711	11,909
Legal Services	897,324	40,090
Municipal Governance	403,145	-17,525
Building Development Services	186,032	42,256
Planning Services	548,589	65,399
Fire and Emergency Services	20,867,585	-413,540
Total CD Community Development	23,190,386	-271,411
CHS Community Human Services		
Community Human Services - Admin	112,793	2,237
Child Care & Early Years	1,467,431	-1
Public Health	1,941,000	1
Employment and Social Services	6,210,082	0
Seniors Services	5,739,677	-3
Housing Services	7,659,444	1
Community Attraction and Leisure Services	5,076,053	447,194
CK Public Library	3,949,584	-47,028
Total CHS Community Human Services	32,156,064	402,401
CS Corporate Services		
Human Resources and Org Development	3,101,454	98,731
Customer Services	1,467,367	30,824
Total CS Corporate Services	4,568,821	129,555
FBIS Finance, Budget, InformationTech Services		
FBIS - Admin	332,946	5,365
Budget , Performance Services	562,520	-24,488
Financial Services	1,568,453	182,428
Information Technology Services	6,386,434	1
Total FBIS Finance, Budget, InformationTech Services	8,850,353	163,306
IES Infrastructure and Engineering Services		
Infrastructure, Engineering Services - Admin	242,671	-4,135
Drainage, Asset, Waste Management	8,252,191	1,339,449
Engineering, Transportation Services	3,470,526	10,534
Public Works	42,034,030	-1,724,573
Rec Facilities & Parks and Open Spaces	6,935,478	35,179
Total IES Infrastructure and Engineering Services	60,934,896	-343,546
POL Police Services		
Total POL Police Services	30,581,272	577,470
Total 00100 CHATHAM-KENT OPERATING	4	2,238,010
Total 100 CK Municipal Operations	4	2,238,010