



## Staff Report

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<b>Report To:</b>	Dan Best, Chief Administrative Officer
<b>From:</b>	<b>Sandy Becker, Financial Services Manager/Treasurer</b>
<b>Date:</b>	November 6 2017
<b>Report:</b>	FIN.17.24
<b>Subject:</b>	Operating Budget Variance Report – Third Quarter

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### Recommendations:

**That** South Huron Council receives the report from S.Becker, Financial Services Manager/Treasurer re: Operating Budget Variance Report – Third Quarter for information only.

### Purpose:

To provide Council with an overview of the operational revenues and expenses up to and including September 30, 2017.

### Background and Analysis:

The department managers are accountable and monitor their departmental revenues and expenditures to the end of each fiscal period to ensure that they remain within the approved budget.

The quarterly financial report represents the operational municipal financial activity for the period ending September 30, 2017 on a basis consistent with that of the budget adopted by Council.

The third quarter highlights are provided per department on the respective statements attached.

### **Operational Considerations:**

As this report is being presented for information only, no alternatives are presented.

### **South Huron's Strategic Plan:**

The recommendation(s) included in this Staff Report support the following goals identified in the 2015-2019 Strategic Plan:

- √ Administrative Efficiency and Fiscal Responsibility
- √ Transparent, Accountable and Collaborative Governance

The variance reporting framework assists managers in identifying emerging issues along with steps or processes required to adjust activities to stay within budget or to respond to those emerging issues.

The consistency of providing these accountability and information reports assist council in better understanding the operational and budgetary issues facing various costing centres.

### **Financial Impact:**

There is no immediate, direct financial impact as a result of the third quarter variance report. All respective budgets are within the approved parameters and represent the first nine months of operation.

In theory, all things considered equal, the percentage variances at this point should be close to 75%. However, the seasonal nature and payables processing will impact these estimates.

### **Legal Impact:**

There are no legal implications for the Corporation resulting from the proposed recommendation.

### **Staffing Impact:**

There are no staffing implications for the Corporation resulting from the proposed recommendation.

### **Policies/Legislation:**

2017 Adopted Budget

Budget Development and Financial Reporting Policy & Procedure

Reserves and Reserves Fund Policy & Procedure

## Consultation:

The following department managers provided an update on each of their respective areas of responsibility;

Dwayne McNab, Development Services Manager  
 Andrew Baird, Emergency Services Manager/Fire Chief  
 Jo-Anne Fields, Community Services Manager  
 Jason Parr, Transportation Services Manager  
 Don Giberson, Environmental Services Manager

## Related Documents:

Appendix A – Third Quarter Operating Variance – by Department

Respectfully submitted,

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**Sandy Becker, Financial Services Manager/Treasurer**

## Appendix A – Third Quarter Operating Variance – by Department

### Building & Development Services

		Budget	YTD Actual Cost	Variance Over/ Under	Percentage Variance
<b>Revenue:</b>					
Fines/Penalties <sup>1</sup>		5,500	1,022	(4,478)	18.59%
Other Revenue <sup>2</sup>		35,000	3,320	(31,680)	9.48%

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<sup>1</sup> Fines to date are lower than projected.

<sup>2</sup> Other revenue includes the rebill amounts for the legal/engineering services that are lower than projected. Therefore, the revenues associated are also lower than expected.

Permits/Licenses	199,730	207,536	7,806	103.91%
Transfer from Reserves <sup>3</sup>	44,456	0	(44,456)	0.00%
User Fees/Charges	26,500	20,427	(6,073)	77.08%
<b>Total Revenue</b>	<b>311,186</b>	<b>232,305</b>	<b>(78,881)</b>	<b>74.65%</b>
<b>Expense:</b>				
Contracted Services <sup>4</sup>	102,182	23,999	(78,183)	23.49%
Materials	75,691	20,893	(54,797)	27.60%
Transfer to Reserves	3,230	2,423	(807)	75.00%
Wages & Benefits <sup>5</sup>	290,318	154,361	(135,957)	53.17%
<b>Total Expense</b>	<b>471,421</b>	<b>201,676</b>	<b>(269,745)</b>	<b>42.78%</b>
<b>Net Total</b>	<b>(160,235)</b>	<b>30,629</b>	<b>190,864</b>	<b>-19.12%</b>

The requirement for legal and engineering services were lower than projected resulting in the corresponding revenues to recover the fees being on the lower side as well. The department has also not been operating with full staff compliment during 2017. While the revenues are in line with the third quarter expectations, some are higher than others. This is due to the unpredictability of building demands.

### Cemetery Services

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
<b>Revenue:</b>				
Cemetery	88,300	69,764	(18,536)	79.01%
Donations/Fundraising <sup>6</sup>	350	1,195	845	341.29%
Investment Income <sup>7</sup>	17,400	8,436	(8,964)	48.48%

<sup>3</sup> This transfer from reserve is a year-end entry calculated based on final revenues and expenses.

<sup>4</sup> This line is where the legal and engineering expenses would appear and, as mentioned, these have been lower than projected.

<sup>5</sup> Wages and benefits are less than expected due to the timing of the hiring process for the Building Inspector position. This expense line is expected to increase in the fourth quarter, however, will come in under budget.

<sup>6</sup> Donations were greater than anticipated.

<sup>7</sup> Investment Income is slightly lower than expected due to consistently low interest rates. It is expected to rise slightly with the Bank of Canada rates.

	<b>Total Revenue</b>	<b>106,050</b>	<b>79,394</b>	<b>(26,656)</b>	<b>74.86%</b>
	<b>Expense:</b>				
	Contracted Services <sup>8</sup>	4,839	4,223	(616)	87.26%
	Materials	49,495	31,679	(17,816)	64.00%
	Transfer to Reserves <sup>9</sup>	10,080	4,935	(5,145)	48.96%
	Wages & Benefits <sup>10</sup>	83,101	72,694	(10,407)	87.48%
	<b>Total Expense</b>	<b>147,516</b>	<b>113,531</b>	<b>(33,985)</b>	<b>76.96%</b>
	<b>Net Total</b>	<b>(41,466)</b>	<b>(34,136)</b>	<b>7,329</b>	<b>82.32%</b>

Cemetery revenues are in line with the third quarter reporting overall with donations and sales making up for the lower interest income due to low interest rates. Expenses are also expected to be in line with budget at year end.

### Emergency Services

		<b>Budget</b>	<b>YTD Actual Cost</b>	<b>Variance Over/Under</b>	<b>Percentage Variance</b>
	<b>Revenue:</b>				
	Donations/Fundraising <sup>11</sup>	22,700	7,639	(15,061)	33.65%
	Grant Revenues <sup>12</sup>	25,000	34,120	9,120	136.48%
	Other Revenue <sup>13</sup>	4,000	7,600	3,600	190.00%
	User Fees/Charges	18,941	34,883	15,941	184.16%
	<b>Total Revenue</b>	<b>70,641</b>	<b>84,242</b>	<b>13,600</b>	<b>119.25%</b>

<sup>8</sup> Contracted services includes an annual maintenance amount, but is expected to be in line with the budget.

<sup>9</sup> A portion of this reserve transfer will be completed as a year end entry. It is expected to be within budget.

<sup>10</sup> Wages/Benefits are expected to be in line with budget although they appear slightly high currently due to the seasonality of operations.

<sup>11</sup> Donations appear slightly low, but are offset by a matching purchasing expense. They are expected to be within budget and do not have a net impact on the bottom line.

<sup>12</sup> These grants are from other Municipalities as per the respective Fire Agreements.

<sup>13</sup> This includes the sale of an asset from auction and will have a corresponding transfer to reserve per asset disposal policy.

<b>Expense:</b>				
Contracted Services	100,860	62,631	(38,229)	62.10%
Materials	239,753	160,981	(78,772)	67.14%
Transfer to Reserves	169,686	127,264	(42,422)	75.00%
Wages & Benefits	430,709	303,558	(127,151)	70.48%
<b>Total Expense</b>	<b>941,008</b>	<b>654,433</b>	<b>(286,574)</b>	<b>69.55%</b>
<b>Net Total</b>	<b>(870,366)</b>	<b>(570,192)</b>	<b>300,175</b>	<b>65.51%</b>

The revenues for Emergency services have exceeded expectation with the expenses coming in on target with the budget.

### General Administration

		Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
Revenue:					
Fines/Penalties		193,230	146,023	(47,207)	75.57%
Grant Revenues		1,373,013	1,027,744	(345,269)	74.85%
Investment Income <sup>14</sup>		70,000	102,490	32,490	146.41%
Other Revenue <sup>15</sup>		2,500	14,532	12,032	581.29%
Permits/Licenses		12,200	8,069	(4,131)	66.14%
Taxation Levy <sup>16</sup>		8,010,330	8,045,028	34,698	100.43%
Transfer from Reserves <sup>17</sup>		120,767	0	(120,767)	0.00%
User Fees/Charges		21,400	22,787	1,387	106.48%
	Total Revenue	9,803,440	9,366,675	(436,765)	95.54%
Expense:					

<sup>14</sup> This figure includes all investment income for the general account. A portion is allocated to the user fee budget at year-end to appropriately assign interest income to the source of funds.

<sup>15</sup> This includes a lump sum amount to reimburse the Municipality for banking implementation costs with Scotiabank.

<sup>16</sup> The taxation levy figure includes billings up to December 31, 2017 and will be in line with budget once year end adjustment has been completed.

<sup>17</sup> This will be completed as part of the year end entries.

Contracted Services <sup>18</sup>	1,997,274	1,330,460	(666,814)	66.61%
External Transfers	272,772	127,644	(145,128)	46.80%
Grant Expenses	67,784	48,983	(18,801)	72.26%
Materials <sup>19</sup>	315,155	183,212	(131,942)	58.13%
Transfer to Reserves	51,287	33,215	(18,072)	64.76%
Wages & Benefits	1,008,935	747,308	(261,627)	74.07%
<b>Total Expense</b>	<b>3,713,206</b>	<b>2,470,822</b>	<b>(1,242,384)</b>	<b>66.54%</b>
<b>Net Total</b>	<b>6,090,234</b>	<b>6,895,852</b>	<b>805,618</b>	<b>113.23%</b>

General Administration has higher than expected revenues and expenses that are on target with the budget resulting in a large favourable variance. Detailed explanation of the figures presented can be found below.

### Recreation Services

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
<b>Revenue:</b>				
Donations/Fundraising <sup>20</sup>	18,800	40,410	21,610	214.95%
Grant Revenues <sup>21</sup>	23,088	1,000	(22,088)	4.33%
Other Revenue <sup>22</sup>	10,378	17,270	6,892	166.41%
User Fees/Charges	716,085	440,118	(275,967)	61.46%
<b>Total Revenue</b>	<b>768,351</b>	<b>498,798</b>	<b>(269,553)</b>	<b>64.92%</b>
<b>Expense:</b>				
Contracted Services	98,330	52,841	(45,489)	53.74%
Debt - Interest Payments <sup>23</sup>	31,609	15,970	(15,639)	50.52%
Debt - Principal payments	33,132	16,400	(16,732)	49.50%

<sup>18</sup> \$30,000 in this figure was allocated to website redesign which is going to tender in November. Additionally, the September invoice for policing was not received until October.

<sup>19</sup> \$20,000 was allocated for brick pointing at Town Hall however, there was no response from the tender. This will be carried forward into 2018. Annual IT costs are also included in here and invoices are expected in November.

<sup>20</sup> Donations are greater than anticipated. Most donations were directed towards the Rodeo and SHRC.

<sup>21</sup> The bulk of the grants is from the Municipality of Bluewater for the operation of the Dashwood Community Centre. Based on historical trends this amount is paid in the latter quarter of the fiscal period.

<sup>22</sup> This includes a donation from Hydro One for \$10,000 for washrooms in McNaughton Park. It is offset by a transfer to reserves for future use.

<sup>23</sup> The debt payment amounts are not reflected for the third quarter and only represent half of the year. These are expected to be on budget.

Grant Expenses <sup>24</sup>	30,591	30,591	0	100.00%
Materials	755,886	578,458	(177,428)	76.53%
Transfer to Reserves	104,204	88,153	(16,051)	84.60%
Wages & Benefits	986,092	709,534	(276,558)	71.95%
<b>Total Expense</b>	<b>2,039,844</b>	<b>1,491,948</b>	<b>(547,896)</b>	<b>73.14%</b>
<b>Net Total</b>	<b>(1,271,493)</b>	<b>(993,150)</b>	<b>278,343</b>	<b>78.11%</b>

Recreation services are in line with the budget and expected to remain so upon year end. Donations and fundraising have proven successful for the 2017 operations and expenses are on target.

## Sewer Services

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
<b>Revenue:</b>				
Fines/Penalties	0	2,164	2,164	100%
Other Revenue <sup>25</sup>	30,000	2,935	(27,065)	9.78%
User Fees/Charges <sup>26</sup>	1,963,518	1,393,950	(569,568)	70.99%
<b>Total Revenue</b>	<b>1,993,518</b>	<b>1,399,050</b>	<b>(594,468)</b>	<b>70.18%</b>
<b>Expense:</b>				
Contracted Services <sup>27</sup>	286,155	107,722	(178,433)	37.64%
Debt - Interest Payments	419,675	301,004	(118,671)	71.72%
Debt - Principal payments	322,291	258,428	(63,863)	80.18%

<sup>24</sup> This is grants for the operation of the Kirkton Woodham pool and community centre.

<sup>25</sup> These are miscellaneous billings (cameras, flushing and installation of new services) and is dependent upon public requests. The budget is prepared based on historicals and subject to significant fluctuation.

<sup>26</sup> This includes the Stephen billing up to September 30, 2017, but does not include the Exeter billing as it is dated October 31, 2017. It is expected to be within budget at year-end.

<sup>27</sup> Grand Bend Sewage Treatment Plant operational billing has only been received for 50% of the year. There are some invoices processed in October for work within the third quarter and the rate study is included here as well which is expected to begin in 2017 and carry forward into 2018.



Materials <sup>28</sup>	287,606	287,566	(39)	99.99%
Transfer to Reserves	468,584	351,438	(117,146)	75.00%
Wages & Benefits <sup>29</sup>	185,015	152,195	(32,819)	82.26%
<b>Total Expense</b>	<b>1,969,326</b>	<b>1,458,354</b>	<b>(510,972)</b>	<b>74.05%</b>
<b>Net Total</b>	<b>24,192</b>	<b>(59,304)</b>	<b>(83,496)</b>	<b>-245.13%</b>

Sewer operations overall are coming in within budgeted figures and are expected to remain this way. Materials are slightly high due mainly to the increased utility costs

## Solid Waste Services

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
<b>Revenue:</b>				
Other Revenue <sup>30</sup>	34,000	18,801	(15,199)	55.30%
User Fees/Charges <sup>31</sup>	1,133,326	793,796	(339,530)	70.04%
<b>Total Revenue</b>	<b>1,167,326</b>	<b>812,597</b>	<b>(354,729)</b>	<b>69.61%</b>
<b>Expense:</b>				
Contracted Services	557,781	419,138	(138,643)	75.14%
Materials <sup>32</sup>	362,557	306,726	(55,831)	84.60%
Transfer to Reserves <sup>33</sup>	124,063	14,544	(109,519)	11.72%
Wages & Benefits	174,232	120,557	(53,675)	69.19%
<b>Total Expense</b>	<b>1,218,632</b>	<b>860,965</b>	<b>(357,667)</b>	<b>70.65%</b>
<b>Net Total</b>	<b>(51,306)</b>	<b>(48,368)</b>	<b>2,938</b>	<b>94.27%</b>

<sup>28</sup> This figure includes utilities which have been greater than expected to date as a result of having to run two blowers at the pumping station. The aeration upgrades project is expected to have a positive impact on future utilities figures.

<sup>29</sup> Wages and benefits for sewer are slightly high with a corresponding decrease in water wages and benefits. The same staff cover both departments so fluctuations of this nature are expected based on the work demands.

<sup>30</sup> Budget is based on historical revenues and this year scrap metal due to reduced volumes and tire disposal is down due to the transition to the new Provincial Agency.

<sup>31</sup> This includes Stephen billing up to September 30, 2017 but does not reflect the October 31, 2017 billing for Exeter.

<sup>32</sup> This includes utility costs which are slightly higher due to the transition to the new scale as both were being operated simultaneously. The load haul and disposal of C&D waste and shingles is higher, but matched with a corresponding increase in revenues.

<sup>33</sup> The completion of the reserve transfer is a year end entry and expected to be within target.

Revenues are slightly low and can partially be attributed to the fact that the Exeter billing cycle does not correspond with quarterly reporting dates. The expenses appear to be on target with the budget.

### Streetlighting (SAR)

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance
<b>Revenue:</b>				
General Revenue <sup>34</sup>	161,579	160,715	(864)	99.47%
<b>Total Revenue</b>	<b>161,579</b>	<b>160,715</b>	<b>(864)</b>	<b>99.47%</b>
<b>Expense:</b>				
Materials <sup>35</sup>	138,000	69,656	(68,344)	50.48%
Transfer to Reserves	23,580	17,339	(6,241)	73.53%
<b>Total Expense</b>	<b>161,580</b>	<b>86,995</b>	<b>(74,585)</b>	<b>53.84%</b>
<b>Net Total</b>	<b>(1)</b>	<b>73,720</b>	<b>73,721</b>	<b>100%</b>

The materials appear slightly low due to the lack of data to predict the cost savings of switching to LED in terms of utilities and maintenance.

### Transportation Services

	Budget	YTD Actual Cost	Variance Over/Under	Percentage Variance

<sup>34</sup> The special area rates have been included in this figure up to December 31, 2017.

<sup>35</sup> Repairs & maintenance is lower than expected as efficiencies are starting to be realized as a result of switching to LEDs. Budget was prepared based on historical data until LED history was known.

<b>Revenue:</b>				
Grant Revenues <sup>36</sup>	41,777	0	(41,777)	0.00%
Other Revenue <sup>37</sup>	40,000	82,291	42,291	205.73%
Permits/Licenses	0	600	600	100+%
User Fees/Charges	14,476	14,476	0	100.00%
<b>Total Revenue</b>	<b>96,253</b>	<b>97,367</b>	<b>1,114</b>	<b>101.16%</b>
<b>Expense:</b>				
Contracted Services <sup>38</sup>	28,856	12,080	(16,776)	41.86%
Debt - Interest Payments	1,989	1,989	0	100.00%
Debt - Principal payments	40,937	40,937	0	100.00%
Grant Expenses <sup>39</sup>	83,555	35,667	(47,888)	42.69%
Materials	1,205,581	843,737	(361,844)	69.99%
Transfer to Reserves	690,497	517,873	(172,624)	75.00%
Wages & Benefits	912,003	591,179	(320,824)	64.82%
<b>Total Expense</b>	<b>2,963,418</b>	<b>2,043,462</b>	<b>(919,956)</b>	<b>68.96%</b>
<b>Net Total</b>	<b>(2,867,165)</b>	<b>(1,946,094)</b>	<b>921,070</b>	<b>67.88%</b>

Revenues for Transportation Services are greater than expected to date. The expenses are coming in within budget and are expected to remain this way.

## Water Services

	<b>Budget</b>	<b>YTD Actual Cost</b>	<b>Variance Over/Under</b>	<b>Percentage Variance</b>
<b>Revenue:</b>				
Fines/Penalties	18,000	12,163	(5,837)	67.57%

<sup>36</sup> The grant expected for operations is the Drain Superintendant & Maintenance Grant that is received at year end.

<sup>37</sup> This includes a \$29,108 contribution from Goshen Wind.

<sup>38</sup> A large portion of contracted services relates to winter activities and is expected to increase as winter 2017/18 approaches.

<sup>39</sup> This figure does not include third quarter Drain Superintendant costs as these are generally billed in October.

Other Revenue <sup>40</sup>	50,000	16,836	(33,164)	33.67%
Transfer from Reserves <sup>41</sup>	25,000	0	(25,000)	0.00%
User Fees/Charges <sup>42</sup>	3,797,470	2,582,232	(1,215,238)	68.00%
<b>Total Revenue</b>	<b>3,890,470</b>	<b>2,611,231</b>	<b>(1,279,240)</b>	<b>67.12%</b>
<b>Expense:</b>				
Contracted Services <sup>43</sup>	88,500	27,742	(60,758)	31.35%
Debt - Interest Payments	557,249	281,539	(275,710)	50.52%
Debt - Principal payments	421,847	222,571	(199,276)	52.76%
Materials	999,475	569,123	(430,352)	56.94%
Transfer to Reserves	800,000	600,000	(200,000)	75.00%
Wages & Benefits <sup>44</sup>	545,045	370,739	(174,306)	68.02%
<b>Total Expense</b>	<b>3,412,116</b>	<b>2,071,714</b>	<b>(1,340,403)</b>	<b>60.72%</b>
<b>Net Total</b>	<b>478,354</b>	<b>539,517</b>	<b>61,163</b>	<b>112.79%</b>

Water operations are in line with the budgeted figures for the year. Expenses are slightly low due to the water/sewer departments sharing staff, equipment and vehicles. When water is slightly low, sewer is expected to be slightly higher.

<sup>40</sup> These are miscellaneous billings and are dependent upon public requests. The budget is prepared based on historicals and is subject to significant fluctuation.

<sup>41</sup> This reserve transfer is part of the year end entries and is expected to be more in line with budget once the year end entries are completed.

<sup>42</sup> This includes the Stephen billing up to September 30, 2017, but does not include the Exeter billing as it is dated October 31, 2017. It is expected to be within budget at year-end.

<sup>43</sup> A rate study and engineering services for SCADA was included in the contracted services budget. The rate study is expected to begin in 2017, but carried forward to 2018. The engineering services for the SCADA will be carried forward to 2018.

<sup>44</sup> Wages and benefits for sewer are slightly high with a corresponding decrease in water wages and benefits. The same staff cover both departments so fluctuations of this nature are expected based on the work demands.