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ADMINISTRATIVE REPORT

Report Date: November 10, 2010
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TO: Vancouver City Council
FROM: General Manager of Financial Services/Director of Finance
SUBJECT: 2010 Operating Budget - 3rd Quarter Review

RECOMMENDATION

THAT Council receive the 2010 Operating Budget Third Quarter Review for INFORMATION.

COUNCIL POLICY

Council's standing instructions require that the Director of Finance report on the status of the Operating Budget as at September 30 each year. In 2010, the Director of Finance has committed to report quarterly on the Operating Budget status.

PURPOSE

This report provides to Council an estimate of 2010 year-end revenues and expenditures and identifies any significant variances from the approved 2010 Operating Budget as well as a review of the Q3 results and variances from the Q3 Operating Budget.

DISCUSSION

The Third Quarter Budget Review provides estimated 2010 year-end revenues and expenditures compared to the budget approved by Council in December 2009 as well as information for Q3. The projections are based on actual results for the first nine months of the year and best estimates of revenues and expenditures over the remaining three months.

In 2010, the finance organization initiated a project to develop quarterly financial reporting for Management and Council. Over the past two quarters, quarterly reporting frameworks, systems and processes have been developed and have been used to inform and support the year-end projections. Q3 is the first report to include quarterly results.

It should be noted that there are significant variances to budget on a quarterly basis due to seasonality issues within the budget and a number of accounting processes that take place on an annual rather than quarterly basis. These variances are adjusted for in the year-end projections contained in this report, and being addressed in our 2011 budget process to better align the quarterly budgets to expected quarterly results.

At this three-quarter point, this report gives a good indication of the financial direction for the City Departments and Boards looking forward through to the end of 2010. In summary, the City is tracking to a positive year-end position, similar to the Second Quarter Review; however, a continuation of the hard work and close scrutiny by the Corporate Management Team is still required to realize this year-end position.

Summary of Variances to Revenue & Expenditure Budgets

Table 1 summarizes the 2010 revenue and expenditure year-end projections. Appendix A provides additional detail of this projection. Appendix B provides details of Q3 actual results and variance to budget.

Table 1 - September 30, 2010 Review Summary (3rd Quarter)

	Year-End Estimated Surplus/(Shortfall) based on 3 rd Quarter Results
Revenues	\$11.27 million
Expenditures	\$1.39 million
Transfer to Reserve	<u>(\$6.00) million</u>
Net Budget Position	\$6.66 million

Based on results to date and initial estimates for the remaining three months of the year, the Operating Budget is anticipated to be in a surplus position of \$6.66 million or 0.9% of budget. This position includes an estimated transfer to reserves of \$6.0M based on assessment of year end positions, primarily in the area of debt, insurance, and deferred payroll costs to provide for the City's unfunded liability.

Total Expenditures are anticipated to be \$1.39 million favourable to budget at year-end, made up of a number of small variances across departments. These projections reflect the significant work by departments to meet the challenges of the 2010 budget and timing of the service adjustments agreed upon in December 2009. Throughout the third quarter, departments have continued to manage vacancies and spending, to ensure the costs associated with implementation of the service adjustments can be accommodated. Ongoing review of revenues and expenditures over the remaining three months will take place to ensure that we realize this year-end position.

1. Variances to Revenue Budget

The review of revenue at September 30, 2010 and the projection to year-end indicates several areas where revenues are expected to exceed budget and where shortfalls are anticipated.

Projected Year-End based on 3rd Quarter Results

Property Taxation **\$2.06 million**

Lower interest rates are expected to result in lower than budgeted interest payments on the Tax Instalment Prepayment Plan (TIPP). This, combined with revised supplementary tax role information, results in net property taxation projected to exceed budget.

Service and Inspection Fees **\$9.2 million**

As a result of the global economic downturn that began in 2008, development activity in the City of Vancouver declined by approximately 50%, with development related revenues reduced from prior years by \$15.7 million for the 2010 Operating budget.

The development market is showing signs of improvement throughout 2010, with Development and Trade Permit fees projected to exceed budget by \$9.2 million by year-end.

Payment-in-Lieu-of-Taxes **\$0.52 million**

Payments-in-Lieu-of-Taxes are expected to exceed budget by year-end due to higher than expected revenues from some large in-lieu properties.

On-Street Parking and Enforcement Revenues **\$1.46 million** (Parking Meter Revenue and Municipal By-Law Fines)

Parking meter revenue is projected to exceed budget by \$1.46 million through implementation of new meters and rates and improved by-law fines collection, combined with higher than anticipated parking revenue during the 2010 Winter Games.

License Fees **\$0.54 million**

License fees are tracking above budget mainly due to higher than anticipated Business License fees.

Miscellaneous Revenues **\$0.40 million**

Property Tax search fees and mortgage company fee revenue is tracking ahead of expectations and is anticipated to end the year with a surplus.

Short-term Interest **(\$3.00 million)**

Short-term interest rates are lower than the budgeted rate by an average of 1%.

Other Revenues/Transfers **Balanced**

Revenues that are expected to be on budget, or with minor variances, by year-end include Civic Property Rentals, Provincial Revenues and Transfers.

Net Revenue Surplus	\$11.27 million
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2. Variances to Expenditure Budget

As indicated in Appendix A, most departments are projected to complete the year with expenditures close to the allocations approved by Council in December 2009. Below are explanations for any projected surplus or any shortfalls that have been identified based on the first nine months results and anticipated events for the remaining three months of the year. It is the responsibility of departments to remain within budget by adjusting expenditures as necessary with the exception of expenses that are beyond their control. In the remaining months of the year, adjustments to expenditures through vacancy management and spending constraints will continue to be made as new information and estimates are made.

Projected Year-End based on 3rd Quarter Results

Fire Department

\$0.12 million

Vancouver Fire and Rescue Services are anticipating a surplus of \$0.12 million. This variance is mainly related to timing of recoveries and expenses related to the 2010 Winter Games, vacancy savings, and reduced consulting and travel related expenditures, partially offset by higher than anticipated fleet costs, and retirement payouts.

Police Department

\$0.16 million

The Vancouver Police Department (VPD) has projected to end the year with a surplus of \$0.16, primarily due to:

- Increased recoveries of \$1.31 million (primarily due to increased Federal Government recoveries related to the NCPC program and G8/G20 Summit, Provincial Government recoveries relating to the Jail and overtime recoveries for externally funded projects), and revenues of \$0.72 million (primarily in increased grants & donations)
- Increased overtime of \$0.94 million comprised of Sworn positions (\$0.88 million) and Civilian positions (\$0.06 million), based upon historical trends for the remaining months of the year
- Increased salary expenses for Sworn positions (\$0.18 million) and Civilian positions (\$0.14 million) due partially to a lower number of retirements than originally projected, increased Statutory Holiday pay, and increased fringe benefit costs (\$0.25 million)
- Higher than budgeted costs for Equipment, Ammunition & Repairs (\$0.16 million) and the Criminal Investigation Fund (\$0.12 million) mostly offset by savings in legal expenses and other operating costs

Civic Theatres

\$0.34 million

The Civic Theatres department is projecting a surplus of \$0.34 million mainly attributable to higher than anticipated music and comedy bookings, and the securing of a major Broadway summer show, following the revitalization of the theatre.

Human Resources **\$0.35 million**

Human Resources are projecting a surplus of \$0.35 million due to vacancy savings, and from reduced pre-employment medical and Worksafe program expenses.

Engineering Services **\$0.50 million**

The Engineering Department is anticipating to be under budget by \$0.50 million at year-end as a result of salary savings through vacancies, combined with reduced operating program expenditures in the Streets division due to prioritized work on capital infrastructure projects.

Office of the City Manager **\$0.66 million**

The Office of the City Manager is projecting to be under budget by \$0.66 million mainly due to vacancy savings, and program savings in the areas of Olympic Operations and Protocol.

Business Planning **\$0.88 million**

Business Planning is projecting a surplus of \$0.88 million due mainly to vacancy and utility savings, partially offset by unbudgeted lease rate increases.

Library Board **\$0.89 million**

The Library Board is estimating a \$0.89 million surplus at year end as a result of turnover and strategic filling of vacant positions.

Community Services **\$0.96 million**

Community Services (CSG) is anticipating a net surplus of \$0.96 million primarily due to positive variances for public process programs (\$0.44 million) and one time savings in rent and lease expenses, and maintenance facility costs, due to restructuring of facilities (\$0.40 million). Net vacancy savings are estimated to be (\$0.10 million) with positive variances in the areas of Social Development, Development Services, Planning, Cultural Services and the GM's Office which are offset by reorganization costs in Licensing and Inspections and delayed restructuring of the graphics program.

Park Board **\$1.00 million**

The Park Board generated most of its revenue during the summer months, and new expenditures for Creekside and Hillcrest are being incurred in the second half of 2010. The Park Board anticipates being under its net budget at year-end by \$1.0 million, due to under expenditure in the areas of utility and equipment expenses.

Financial Services **(\$0.12 million)**

Financial Services is projecting a shortfall of \$0.12 million due to increased volume related processing and bank fees as well as retirement payouts, partially offset by vacancy savings due to hiring delays, and reduced travel and training expenditures.

Legal Services **(\$0.16 million)**

The Law Department is projecting a shortfall of \$0.16 million due to retirement payouts for senior lawyer positions, causing vacancies and the requirement to use outside legal counsel and lawyers hired on special retainer to cover major, time sensitive development work until replacements are hired.

General Government **(\$4.35 million)**

The 2010 budget reflected a savings target of \$10.2M from projects to be initiated through the Vancouver Services Review. This savings target was based on business case analysis performed in the summer of 2009 by a broad cross section of city staff, under the direction of consultants, Sierra Systems.

The \$10.2M target was built into the 2010 General Government budget, in anticipation of the VSR projects launching and being fully implemented in 2010. At the time the budget was approved in December 2009, the specific project plans had not yet been defined. A contingency was put in place to recognize the uncertainty of project launch dates and scope. More time than originally anticipated has been taken to ensure a respectful, best practice human resource management of business transformations with priority attention given to staff impacted by budget adjustments to enable us in many cases to find alternative positions within the organization. This has delayed many of our projects. Annualized savings to date for the operating fund are close to \$4M, and are reflected in departmental results. As well, approximately \$7M of savings have been identified in the capital fund. A total of \$10.2M of operating fund savings is expected to be realized in 2011.

After providing \$1.25 million for potential snow in the upcoming winter, the uncommitted contingency reserve is \$4.79 million.

Other Departmental Variances **Balanced**

The remaining departments are projecting to be balanced, or with minor variances, by year-end. They include: Mayor and Council, Equal Employment Opportunity Program (EEO), Civic Grants, Britannia Community Services Centre, City Clerks, Utilities and Debt.

Reserve Transfers **(\$6.0 million)**

Based on 3rd Quarter results, an estimated minimum \$6.0M transfer to reserves will be made based on assessment of year end positions, primarily in the area of debt, insurance and deferred payroll costs to assist with reducing the City's ongoing unfunded liability. If a surplus is sustained, this reserve transfer will increase at year-end.

Net Expenditure Surplus	(\$4.61 million)
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Target Year-End Projection at 3rd Quarter	\$6.66 million
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CONCLUSION

Current estimates project the Operating Budget to be in a potential total surplus position of \$6.66 million or 0.9% of budget by year-end prior to any further adjustments that may be required to the Deferred Payroll Costs reserve or other reserves.

The projected year-end position will change given the estimates are based on only the first nine months of actual performance and that unanticipated items between now and year-end will impact the City's bottom line. For this reason, Departments will continue to monitor their budgets carefully and to adjust expenditures accordingly to ensure a balanced year-end position.

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Report to Vancouver City Council
2010 Operating Budget - 3rd Quarter Review

Appendix A 2010 September Year-To-Date Review Summary

\$ millions	Annual Plan	Year-End Total	Variance \$	Variance %
REVENUES				
Property Taxation	569.60	571.66	2.06	0.4%
Payments in Lieu (PIL)	33.21	33.73	0.52	1.6%
License Fees	15.26	15.80	0.54	3.5%
Service & Inspection Fees	18.61	27.81	9.20	49.5%
Municipal By-Law Fines	16.35	17.72	1.37	8.4%
Parking Meter Revenue	36.02	36.11	0.09	0.3%
Civic Property Rentals	1.07	1.21	0.14	12.8%
Miscellaneous Revenue	6.84	7.24	0.40	5.8%
Short-Term Interest	13.55	10.55	(3.00)	(22.1%)
Provincial Revenues	20.91	20.86	(0.06)	(0.3%)
Transfers	7.16	7.16	-	0.0%
TOTAL REVENUES	738.59	749.86	11.27	1.5%
EXPENDITURES				
Mayor and Council	2.10	2.01	0.09	4.4%
Office of the City Manager	8.48	7.82	0.66	7.8%
Equal Employment Opportunity	0.60	0.58	0.02	3.4%
Law Department	4.49	4.65	(0.16)	(3.6%)
Civic Theatres (Net Budget)	(1.73)	(2.07)	0.34	(19.5%)
Britannia Community Services	3.18	3.18	(0.00)	(0.1%)
City Clerk's	3.31	3.29	0.03	0.9%
Community Services Group	49.13	48.17	0.96	2.0%
Civic Grants	16.08	16.08	(0.00)	0.0%
Business Planning & Services	31.48	30.61	0.88	2.8%
Engineering Public Works	67.69	67.19	0.50	0.7%
Total Utility Expenditures*	27.79	27.90	(0.11)	(0.4%)
Human Resources	7.64	7.29	0.35	4.5%
Fire Department	85.69	85.57	0.12	0.1%
Library Board	37.46	36.57	0.89	2.4%
Park Board (Net Budget)	60.00	59.00	1.00	1.7%
Police Board	193.25	193.08	0.16	0.1%
General Government	63.60	73.95	(10.35)	(16.3%)
Financial Services	26.49	26.62	(0.12)	(0.5%)
Total Debt Charges	51.84	51.70	0.14	0.3%
TOTAL EXPENDITURES	738.59	743.20	(4.61)	(0.6%)
NET BUDGET POSITION	0.00	6.66	6.66	

*Other than landfill expenditures covered by increased revenues, year-end surplus or deficit in the utilities are transferred to reserve.

Appendix B

2010 Q3 Plan to Actual Review Summary

\$ millions	Q3 Plan	Q3 Actuals	Q3 Variance \$	Q3 Variance %
<u>REVENUES</u>				
Property Taxation	1.38	2.16	0.78	56.5%
Payments in Lieu (PIL)	11.69	20.14	8.45	72.3%
License Fees	0.56	0.61	0.06	9.9%
Service & Inspection Fees	4.21	9.35	5.14	122.3%
Municipal By-Law Fines	4.09	4.17	0.08	2.1%
Parking Meter Revenue	9.68	9.32	(0.36)	-3.8%
Civic Property Rentals	0.38	0.29	(0.09)	-24.6%
Miscellaneous Revenue	1.89	2.06	0.17	8.8%
Short-Term Interest	3.39	2.78	(0.61)	(17.9%)
Provincial Revenues	6.88	15.57	8.69	126.3%
Transfers	0.00	0.00	-	0.0%
TOTAL REVENUES	44.14	66.45	22.30	50.5%
<u>EXPENDITURES</u>				
Mayor and Council	0.52	0.52	(0.01)	-1.7%
Office of the City Manager	1.28	0.47	(0.81)	-63.0%
Equal Employment Opportunity	0.15	0.14	(0.01)	-6.1%
Law Department	1.11	1.29	0.19	16.9%
Civic Theatres (Net Budget)	0.02	0.01	(0.01)	-64.6%
Britannia Community Services	0.80	0.71	(0.09)	-11.3%
City Clerk's	0.81	0.78	(0.03)	-3.8%
Community Services Group	12.21	11.07	(1.14)	-9.4%
Civic Grants	1.98	3.20	1.22	61.4%
Business Planning & Services	7.66	7.27	(0.38)	-5.0%
Engineering Public Works	17.05	13.64	(3.41)	-20.0%
Total Utility Expenditures*	55.32	46.61	(8.71)	-15.7%
Human Resources	1.98	1.76	(0.22)	-11.0%
Fire Department	21.66	21.41	(0.25)	-1.2%
Library Board	8.74	7.71	(1.03)	-11.7%
Park Board (Net Budget)	15.01	12.11	(2.90)	-19.3%
Police Board	47.54	46.04	(1.51)	-3.2%
General Government	30.83	30.71	(0.12)	-0.4%
Financial Services	6.09	5.67	(0.42)	-6.9%
Total Debt Charges	1.67	1.67	0.00	0.0%
TOTAL EXPENDITURES	232.43	212.78	(19.64)	(8.5%)
NET POSITION	(188.28)	(146.33)	41.95	

*Other than landfill expenditures covered by increased revenues, year-end surplus or deficit in the utilities are transferred to reserve.

It should be noted that there are significant variances to budget on a quarterly basis due to seasonality issues within the budget and a number of accounting processes that take place on an annual rather than quarterly basis. These variances are adjusted for in the year-end projections contained in this report, and being addressed in our 2011 budget process to better align the quarterly budgets to expected quarterly results.