

Town of Whitby Staff Report

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Report Title: 2023 Year End Operating Budget Variances and Reserve Funds

Report to: Committee of the Whole

Date of meeting: June 10, 2024

Report Number: FS 15-24

Department(s) Responsible:

Financial Services Department

Submitted by:

Fuwing Wong, Commissioner of
Financial Services / Treasurer, x4314

**Acknowledged by M. Gaskell, Chief
Administrative Officer**

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1. Recommendation:

1. That report FS 15-24 regarding 2023 Year End Operating Variances and Reserve Funds be received;
2. That notwithstanding the Disposition of Operating Surplus Policy F 010, the full amount of the 2023 operating surplus, in the amount of \$80,157 be transferred to the Long-Term Finance Reserve; and,
3. That \$100,000 be drawn from the Long-Term Finance Reserve in 2024 to fund an additional one-time payment towards the Town of Whitby's \$250,000 commitment to the Charles H. Best Diabetes Centre's capital campaign.

2. Highlights:

- The Town's net operating budget surplus for 2023 was \$0.1 million, comprised of a (\$0.2 million) unfavourable variance in revenues and \$0.3 million favourable variances in expenditures.

- The recommendation to transfer the 2023 year-end surplus to the Long Term Finance Reserve would facilitate a one-time additional \$100,000 payment to the Charles H. Best Diabetes Centre in 2024 as part of the Town's overall \$250,000 commitment towards the capital campaign.

3. Background:

In accordance with the Town's Operating Budget Process Policy, the Treasurer will coordinate and report on budget performance on a periodic basis.

4. Discussion:

The Town of Whitby's 2023 Operating Budget consists of \$165.1 million of Revenues and \$165.1 million of Expenses. At the end of 2023, there was an operating budget surplus of \$0.1 million (\$80,157 rounded) comprised of:

- (\$0.2) million deficit in revenues; and
- \$0.3 million in expenditure savings.

Table 1 below provides a summary of the 2023 operating variances (unaudited) by budget category for the overall net budget surplus of \$0.1 million:

TABLE 1:

Town of Whitby by Budget Category* (\$ in Millions)	2023 Budget	2023 Actual**	2023 Year-end Surplus / (Deficit)	Variance %
Revenue				
Taxation	(\$120.9)	(\$122.0)	\$1.1	(1%)
Grants	(\$0.2)	(\$0.1)	(\$0.1)	40%
Program Revenues, Fees, and Fines	(\$26.5)	(\$26.5)	(\$0.0)	0%
Miscellaneous Revenue & External Recoveries	(\$2.4)	(\$2.6)	\$0.1	(6%)
Other Revenues	(\$6.0)	(\$5.7)	(\$0.3)	5%
Transfers from Reserves & Internal Recoveries	(\$9.0)	(\$8.0)	(\$0.9)	11%
Total Revenues	(\$165.1)	(\$164.9)	(\$0.2)	0%
Expenditures				
Salaries, Wages & Benefits	\$89.2	\$89.7	(\$0.5)	(1%)

Building Related Costs & Utilities	\$6.9	\$6.3	\$0.6	8%
Vehicle & Equipment Maintenance & Fuel	\$3.5	\$3.0	\$0.6	16%
Purchased Services and Supplies	\$10.1	\$12.4	(\$2.3)	(23%)
Administrative Costs	\$6.1	\$5.2	\$0.9	14%
Grants	\$6.7	\$6.7	\$0.1	1%
Debt Charges	\$1.5	\$1.5	\$0.0	0%
Transfers to Reserves & Internal Transfers	\$41.1	\$40.2	\$0.9	2%
Total Expenditures	\$165.1	\$164.8	\$0.3	0%
Net Operating Budget	(\$0.0)	(\$0.1)	\$0.1	

**Note: Numbers may not add due to rounding*

***2023 Actuals have been adjusted to eliminate offsetting (surplus/deficit) variances related to reserve/reserve fund transfers approved by Town Policy.*

2023 Labour Disruption

The 2023 financials were impacted by a labour disruption that resulted in the closure of Town facilities, cancellation of programs, facility rentals, and suspension of curbside waste pick-up over a five-week period in late 2023. The labour disruption, from October 14, 2023 to November 16, 2023, resulted in a net cost or an estimated overall loss for the Town of approximately \$1.3 million as outlined in the Labour Disruption (“LD”) column in Table 2, below.

Table 2 separates the 2023 Year-end Surplus between Business As Usual (“BAU”) and Labour Disruption (“LD”):

TABLE 2:

Town of Whitby by Budget Category* (\$ in Millions)	BAU YE 2023 Surplus / (Deficit)	LD YE 2023 Surplus / (Deficit)	2023 Year-end Surplus / (Deficit)
Revenue			
Taxation	\$1.1	\$0.0	\$1.1
Grants	(\$0.1)	\$0.0	(\$0.1)
Program Revenues, Fees, and Fines	\$1.2	(\$1.2)	(\$0.0)
Miscellaneous Revenue & External Recoveries	\$0.1	\$0.0	\$0.1

Other Revenues	(\$0.3)	\$0.0	(\$0.3)
Transfers from Reserves & Internal Recoveries	(\$0.9)	\$0.0	(\$0.9)
Total Revenue Variance	\$1.1	(\$1.2)	(\$0.2)
Expenditures			
Salaries, Wages & Benefits	(\$2.8)	\$2.3	(\$0.5)
Building Related Costs & Utilities	\$0.6	\$0.0	\$0.6
Vehicle & Equipment Maintenance & Fuel	\$0.6	(\$0.0)	\$0.6
Purchased Services and Supplies	(\$0.1)	(\$2.2)	(\$2.3)
Administrative Costs	\$1.0	(\$0.1)	\$0.9
Grants	\$0.1	\$0.0	\$0.1
Debt Charges	\$0.0	\$0.0	\$0.0
Transfers to Reserves & Internal Transfers	\$1.0	(\$0.1)	\$0.9
Total Expenditure Variance	\$0.3	(\$0.1)	\$0.3
Net Operating Budget Variance	\$1.4	(\$1.3)	\$0.1

*Note: Numbers may not add due to rounding

As outlined in Table 2, above, the Town's Expenditures related to the labour disruption was approximately break-even, that is the Salary, Wages & Benefit savings of \$2.3 million were offset by approximately \$2.4 million of incremental expenses related to contracted services at the waste drop-off locations, security, and supplies (such as personal protective equipment/high visibility wear).

The major impact of the labour disruption is lost program and rental revenues related to the Town facilities being closed and non-union staff being re-deployed to provide essential Town services. The \$1.2 million revenue loss (shown in the "LD" column of Table 2) is based on \$0.5 million of refunds and credits provided to program registrants and facility rental customers. A further \$0.7 million of Ice Revenue was lost during the labour disruption when comparing actual revenues to contracted revenues for ice time from various clubs, associations, and leagues over the labour disruption period.

2024 Business as Usual (BAU)

The BAU variance explanations, at a corporate level, are provided below and were prepared in consultation with staff from Departments across the Town. Further detail on departmental variances, excluding those applicable to the labour disruption, are available in Attachment 1 of this report.

Details of the BAU Revenue and Expenditure variances, noted in Table 2, are as follows:

PART A: REVENUE VARIANCES – Business as Usual (BAU)***Taxation***

The Taxation revenue surplus of \$1.1 million is mainly due to additional supplementary tax revenue from assessment growth (e.g., new properties added to the property tax roll during the year). Timing of the supplementary tax revenues is based on the Municipal Property Assessment Corporation (MPAC) determining an assessment value for new builds and property improvements.

Grants

The Grants revenue deficit of (\$0.1) million is from lower Federal Government summer student grants received for positions primarily in parks and summer camps.

Program Revenues, Fees, and Fines

The Program Revenues, Fees, and Fines revenue surplus of \$1.2 million is mainly due to an additional \$1.4 million collected in late payment fees on tax arrears plus \$0.4 million of planning and engineering fees. As reported in the May 13, 2024 Staff Report FS 17-24 on Enhanced Property Tax Payment Options, the Town's property tax arrears is trending upwards in recent years (from 4.61% of taxes levied in 2021 to 6.17% in 2022 and 8.37% in 2023). Through Report FS 17-24, Council approved additional pre-authorized payment plans, including a tax arrears plan, intended to provide more options for property owners to pay and bring their accounts current.

The favourable revenues variances were offset by a (\$0.2) million pressure for reduced parking fine revenue primarily from staff vacancies. A (\$0.2) million revenue pressure is related to the Civic Recreation Complex (CRC) pool, which was closed for much of 2023 due to renovations. Further, facility closures also resulted in lower facility expenditures (such as utilities) which are reflected in other sections of the Town's budget/this report. There were other net revenue pressures of (\$0.2) million from various accounts.

Miscellaneous Revenue & External Recoveries

The Miscellaneous Revenues & External Recoveries surplus of \$0.1 million is mainly derived from external recoveries of legal fees and peer reviewing consulting fees received from developers.

Other Revenues

The Other Revenues deficit (\$0.3) million is due to (\$0.4) million in budget revenues from the Whitby Football Club that were not collected due to a suspension of the Club's debt repayments during the pandemic. Payments from the Whitby Football Club resumed in August of 2023. This is offset by a net \$0.1 million mainly from higher bank interest rates on the Town's short-term investments/bank balance in 2023.

Transfers from Reserves & Internal Recoveries

The Transfers from Reserves & Internal Recoveries had a deficit of (\$0.9) million meaning the budgeted \$0.9 million transfer from reserves to fund the 2023 Operating Budget was not required. As part of the 2023 budget, 1.0 million was approved to be drawn from reserves to deal with the following budget pressures:

\$0.6 million related to the Elexicon dividend shortfall;

\$0.4 million related to the high inflation, at the time, related to fuel/gas

\$1.0

As noted above, staff did not transfer the \$1.0 million from reserves as the Town's overall operating budget was not in a deficit overall. A transfer from reserves would have created a surplus that would be transferred back to reserves.

The \$1.0 unfavourable variance was partially offset by \$0.1 million of additional internal recoveries from capital projects.

PART B: EXPENDITURE VARIANCES - BAU***Salaries, Wages & Benefits***

The unfavourable variance in Salaries, Wages & Benefits of (\$2.8) million is primarily as a result of a required \$3.2 million accrual for a 27th pay period in 2025. Staff are paid bi-weekly so there are normally 26 pay periods annually. Each year, approximately 1-2 days worked is carried over into the following year for payment. Approximately every 10 years, there is an additional pay period, known as the 27th pay. To mitigate the budget impact in the year of the 27th pay (i.e., 2025), the Town accrues for this payment. In addition, there is overtime pressure on Fire and Emergency Services (\$0.4) million required to cover absences due to WSIB, sick and personal leaves. This deficit is offset by a \$0.8 million surplus in salaries and benefits from staff vacancies, mainly Community Services and Planning and Development. Staff vacancies result in work/projects not being completed in a timely manner and adds workload and stress for remaining staff. To help address staff retention and attraction issues Town-wide, a review of the Town's competitiveness was undertaken with findings and recommendations included in the June 10, 2024 Staff Report CAO 09-24 on the Compensation Market Review.

Building Related Costs & Utilities

The Building Related Costs & Utilities surplus of \$0.5 million can be attributed to \$0.7 million in utilities due to hydro, heating, and water and sewer savings, primarily from lower than budgeted rates, at various facilities including the Civic Recreation Complex (CRC), which was closed for pool renovations for most of the year. This was offset by (\$0.2) million of additional maintenance and repair costs in facilities as a result of aging infrastructure.

Vehicle & Equipment Maintenance & Fuel

The Vehicle & Equipment Maintenance & Fuel surplus of \$0.6 million was primarily due to lower than budgeted volumes and fuel market prices during 2023.

Administrative Costs

The Administrative Costs surplus of \$1.0 million is mainly related to \$0.7 million in lower property taxes written off in 2023. As outlined in June 10, 2024 Staff Report FS 29-24 entitled 'Update on Property Tax Assessment Appeals and Adjustments', write-offs have been trending downwards as province-wide re-assessments have been delayed due to the COVID-19 pandemic. The Town normally sees an increase in assessment appeals following re-assessments. The Province postponed the planned 2020 province-wide Assessment Update and 2016 assessment values have been/will continue to be used for the taxation years 2021, 2022, 2023, 2024, and 2025. The March 26, 2024 Ontario Provincial budget deferred the next property tax reassessment indefinitely while the Province conducts a review focusing on fairness, affordability and business competitiveness in order to enhance the transparency and equity of future assessments. With the deferral, the Assessment Review Board has been able to catch-up on and significantly reduce the number of outstanding assessment appeals across the province.

The balance of the favourable variance is related to additional savings of \$0.3 million in various other accounts are from items such as office supplies and lower conference, training, mileage, and other staff-related expenses due to staff vacancies throughout the Town.

Grants

Grant programs ended 2023 with a \$0.1 million expense surplus caused mainly by lower public participation in the Access Program with the closure of the Civic Recreation Centre (CRC) pool for renovations for most of the year and no applications for the Accessibility Improvement program.

Debt Charges

There was no material variance to report for Debt Charges in 2023. While Council has approved capital projects in the budget to be debt-financed, the Town's practice is to issue debentures, through the Region of Durham, following the completion of the project (when final costs are known). Once the debt is issued, debt servicing costs (interest and principal) are incorporated into future operating budgets.

Transfers to Reserves & Internal Transfers

There was a surplus of \$1.0 million related to transfers to discretionary reserves, such as the parking reserve. These reserve transfers were not completed due to an insufficient remaining operating surplus (i.e. the transfers would have resulted in an overall deficit for the Town).

Despite the above, reserve transfers totalling \$1.2 million were completed in 2023 to the Marina, Arena, Building Permit, Election, Zero Carbon, Winter Control and Gravel Pit

reserves since those reserves/transfers are either legislated, related to special infrastructure fees, or did not result in an operating deficit.

5. Financial Considerations:

The Town's 2023 Year-End Operating Surplus is \$0.1 million (or \$80,157 rounded). The Town's Disposition of Operating Surplus Policy in s.3.1.3 of Policy F 010, directs that an operating surplus be transferred:

- 50% to the Asset Management Reserve Fund; and,
- 50% to the Long-Term Finance Reserve.

The Asset Management Reserve Fund is used to fund the repair, maintenance, and rehabilitation of the Town's existing and aging infrastructure. The Long-Term Finance Reserve (also known as the one-time reserve) is used to fund capital projects, special projects and pilot projects that are not related to asset management or growth.

A potential project that may be funded from the Long-Term Finance reserve is the Town's \$250,000 (total) commitment to the Charles H. Best Diabetes Centre capital campaign. Council Resolution # 225-21 approved a \$250,000 contribution to the Charles H. Best Diabetes Centre over ten 10-years. As a result, \$25,000 was included in the 2022 operating budget and the Town has been contributing \$25,000 annually. The Council Resolution also directed staff to make the payment in less than 10 years, if feasible.

Notwithstanding the Town's Disposition of Operating Surplus Policy (Policy F 010), it is recommended that 100% of the 2023 Operating Surplus, in the amount of \$80,157 be transferred to the Long-Term Finance Reserve. Further, it is recommended that the Town draw \$100,000 from the Long-Term Finance Reserve to make a lump-sum one-time additional \$100,000 payment to the Charles H. Best Diabetes Centre in 2024. Subject to Council approval of this report, the Town will have three (3) more years remaining, at \$25,000, to fully pay the total \$250,000 commitment. As shown below, total payments at the end of 2024 (assuming the additional one-time 2024 contribution mainly funded from the 2023 surplus is approved) totals \$175,000:

\$25,000	2022 contribution to Charles H. Best Diabetes Centre
\$25,000	2023 contribution;
\$25,000	2024 contribution
<u>\$100,000</u>	2024 additional one-time contribution (recommended)
<u>\$175,000</u>	Total contribution at the end of 2024

If the additional one-time contribution is approved, the balance of the Town's \$250,000 commitment, in the amount of \$75,000 (= \$250,000 - \$175,000), will be fully paid in three (3) more years (2025, 2026, and 2027). This will mean that the Town will pay for the full \$250,000 over six (6) years in total (2022 to 2027) vs. 10-years.

A complete listing of the Town's reserve/reserve fund balances as at December 31st for the years 2021-2023 has been included in Attachment 2 of this report. More context and discussion about the following reserve/reserve funds are included in other reports on the June 10, 2024, Committee agenda:

- Building Permit Reserve Fund – Report “FS 11-24 – Building Permit Fees Annual Report”
- Development Charges and Cash-in-Lieu of Parkland Dedication Reserves – Report “FS 16-24 – Annual Treasurer's Statement – Development Charges and Parks Reserve Fund”

6. Communication and Public Engagement:

N/A

7. Input from Departments/Sources:

Information in this report was provided by the various departments.

8. Strategic Priorities:

The reporting of year end variances aligns with Pillar 4: “Whitby's Government – Accountable and Responsive” of the Community Strategic Plan, in particular:

- Action Item 4.3.5 Provide timely and transparent reporting to the community, staff, and Council.
- Action Item 4.4.3 Deliver services that respond to community needs while balancing the impact to taxpayers.

9. Attachments:

Attachment 1 – 2023 Year End Operating Variances by Department

Attachment 2 – Reserve and Reserve Fund Year End Balances 2021-2023