

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON SEPTEMBER 10, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2013 OPERATING BUDGET STATUS – SECOND QUARTER REPORT

RECOMMENDATION

1. That the 2013 Operating Budget Status – Second Quarter Report for the General (Property Tax Supported refer to **Appendix A**), Water and Wastewater and Treatment Budgets **BE RECEIVED** for information, it being noted that Civic Administration is projecting:
 - a) \$4.3 million in savings for the General (Property Tax Supported) Budget, noting that the year end position could fluctuate significantly based on factors beyond the control of Civic Administration such as Ontario Works caseload and winter maintenance.
 - b) \$3.4 million savings in the Water rate supported budget.
 - c) \$1.6 million savings in the Wastewater and Treatment rate supported budget.
2. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Operating Budget Contingency Reserve to balance year end operations of the Property Tax Supported Budget should the budget be in a surplus/deficit position.
3. That Civic Administration **BE AUTHORIZED** to contribute to the Unfunded Liability Reserve any operational savings realized from personnel and contingency budgets at 2013 year end, it being noted that the net unfunded liability balance as reported in the 2012 Financial Statement is presently at \$100.6 million.
4. That Civic Administration **BE AUTHORIZED** to contribute to the City Facilities Reserve Fund in order to provide a “potential” source of funding for facility related initiatives such as Ontario Works Decentralization should the Property Tax Supported Budget be in a surplus position, it being noted the Ontario Works Decentralization initiative is progressing and is on target to meet the staged timelines identified in the June 17, 2013 report to the Community and Protective Services Committee.
5. That Civic Administration **BE AUTHORIZED** to contribute to the Economic Development Reserve Fund to be used to support initiatives brought forward by the Investment and Economic Prosperity Committee that best accelerate London’s economy and foster private sector investment in the City should the Property Tax Supported Budget be in a surplus position.
6. That with respect to the Information Technology Services operational savings, if any, Civic Administration **BE AUTHORIZED** to contribute to the Technology Services Reserve Fund to be used to support investments in corporate systems.
7. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Water Capital Reserve Fund to balance year end operations of the Water Budget should the budget be in a surplus/deficit position.
8. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Wastewater Rate Stabilization Reserve and Sewage Works Reserve Fund to balance year end operations of the Wastewater & Treatment Budget should the budget be in a surplus/deficit position.
9. That Civic Administrations contribution of \$697,995 (\$629,086 – property tax supported; \$20,794 – wastewater; and \$48,115 – water) to the Efficiency, Effectiveness and Economy reserves in 2013 **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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- 2012 Operating Budget Status - Fourth Quarter Report (April 9, 2013 meeting of Corporate Services Committee, Agenda Item 4)

BACKGROUND

The 2013 Operating Budget Status - Second Quarter Report provides a review and analysis of the general operating budget for the January 1st to June 30th, 2013 time period. **Appendix A** compares actual costs incurred as of June 30th, 2013 for the Property Tax Supported Budget. The comparison of actual costs incurred by Service Grouping to the annual budget can assist administration and Council in projecting the year end surplus/(deficit) positions and highlight any potential pressure points in future budgets.

2013 GENERAL (PROPERTY TAX SUPPORTED) BUDGET

Outlined in the table below is a comparison of net costs incurred as of June 30th, 2013 in comparison to costs incurred as of June 30th, 2012 for the property tax supported budget.

	Net Budget (\$ millions)	As at June 30 (\$ millions)	% Spent
2013	\$479.6	\$224.9	46.9%
2012	\$467.4	\$216.2	46.3%

As of June 30, 2013 Civic Administration is projecting a savings in the property tax supported budget. Outlined below are some of the key items that are contributing to the projected year end position.

	\$ Millions
• Additional revenue from the Ministry of Finance as a result of a one-time payout from a reconciliation of 2010 actual social program costs related to the Ontario Municipal Partnership Fund (OMPF).	3.7
• Savings in Corporate Services, Social & Community Support Services, and anticipated savings in snow control.	1.6
• Savings in the Child Care program as a result of changes to provincial funding.	0.8
• Net savings in Housing resulting from reconciliations of prior year subsidies and net savings in London & Middlesex Housing Corporation resulting from higher rent revenues partially offset by operational cost increases.	0.6
• Reduction in the draw from the Operating Budget Contingency Reserve partially offset by higher than anticipated revenue from short term investments, interest and penalty on taxes, and increased London Hydro dividend.	(2.4)
Projected Year End Position	<u>\$4.3</u>

2nd Quarter Projected Year End Position by Service Program

Outlined in the table below is a breakdown of the contributing factors provided by Service Program identifying projected savings and/or deficits.

SERVICE PROGRAM	\$ millions
CULTURE	(0.1)
- Cultural Services is anticipating a \$0.08 million deficit primarily due to unanticipated operational costs at Eldon House and Arts, Culture and Heritage Advisory & Funding. - Heritage and the London Public Library are anticipating a breakeven position at year end.	
ECONOMIC PROSPERITY	0.0
Economic Development Services is anticipating a \$0.01 million surplus due to personnel savings in Community Improvement/BIA.	
ENVIRONMENTAL SERVICES	0.0
Conservation Authorities, Environmental Stewardship, and Garbage, Recycling & Composting are anticipating a breakeven position at year end.	
PARKS, RECREATION, & NEIGHBOURHOOD SERVICES	0.8
- Neighbourhood & Recreation Services is anticipating a surplus of \$0.8 million primarily due to changes to provincial funding for the Child Care program. - Parks and Urban Forestry are anticipating a \$0.04 million deficit due to personnel and operational cost overruns.	
PLANNING & DEVELOPMENT SERVICES	0.2
- Building Controls is anticipating a \$0.04 million surplus resulting from higher than anticipated revenues for fee based services and savings in personnel and operational costs. - Land Use Planning and Development Services are anticipating a \$0.2 million surplus primarily related to personnel savings.	
PROTECTIVE SERVICES	(0.3)
- Animal Services is anticipating a \$0.05 million deficit due additional costs related to the licences collection contract. - By-Law Enforcement is anticipating a \$0.26 million deficit primarily due to the transition to a staggered taxi licence renewal process. This is a one-time issue related to the recognition of licence revenues. - Fire Services is anticipating a breakeven position noting that the employee agreement between the London Professional Firefighters Association and the City expired December 31, 2010 and is currently at arbitration. - London Police Services and Emergency & Security Management Services are anticipating a break even position at year end.	
SOCIAL & HEALTH SERVICES	1.1
- Housing Services is anticipating a \$0.4 million surplus due to lower than anticipated housing provider subsidy costs resulting from settlements and reconciliations from prior years partially offset by a revenue shortfall from County billings. - London & Middlesex Housing Corporation is anticipating a \$0.2 million surplus due to higher rent revenues resulting from lower overall vacancy rates and savings in utility costs partially offset by cost overruns in property taxes and general repairs and maintenance. - Social and Community Support Services is anticipating a \$0.5 million surplus by year end based on the following: \$0.1 million in net cost savings in personnel and savings in administrative and program expenses partially offset by anticipated costs increases related to Ontario Works decentralization. \$0.1 million in Ontario Works net caseload savings. \$0.1 million in net cost savings for discretionary benefits non-social assistance recipients	

SERVICE PROGRAM	\$ millions
○ \$0.2 million in cost savings related to Ontario Works Child Care, subsidized transit, and Social Research and Planning. • Long Term Care and Primary Health Care Services are anticipating a breakeven position at year end.	
TRANSPORTATION SERVICES	0.3
• Parking Services is anticipating a \$0.03 million surplus due to increased parking meter revenue and operational cost savings partially offset by net personnel cost overruns. • London Transit Commission is anticipating a breakeven position. Unfavourable ridership revenue is offset by lower than expected fuel costs. • Roadway Services is anticipating a \$0.28 million surplus primarily due to expected savings in the snow control program.	
CORPORATE, OPERATIONAL, & COUNCIL SERVICES	2.3
• Corporate Services is anticipating a \$0.7 million surplus predominantly attributable to savings in Human Resources, Realty Services, and Fleet. • Corporate Planning and Administration Services and Council Services are anticipating a \$0.2 million surplus due to personnel savings. • Financial Management is anticipating a \$1.3 million surplus by year end based on the following: ○ \$3.7 million in additional Ontario Municipal Partnership Fund (OMPF) revenue as a result of the one-time payout from a reconciliation of 2010 actual social program costs. The City did not budget this revenue because the timing and certainty of receiving this funding was unpredictable and uncertain due to the Province's current fiscal challenges. ○ \$2.1 million higher than anticipated revenue from short term investments, interest and penalty on taxes, and increased London Hydro dividend. ○ \$4.5 million budget draw from the Operating Budget Contingency Reserve not required. • Public Support Services anticipates \$0.06 million in savings by year end. ○ Revenue from fees in Taxation and Administration of Justice are trending higher than budget partially offset by increased postage costs in Customer Relations.	
TOTAL PROJECTED YEAR END POSITION	\$ 4.3

Housekeeping Budget Transfers

As authorized by resolution of Council at the time of the adoption of the 2013 budget, Civic Administration will, throughout the year, approve transfers between accounts that are considered 'housekeeping' in nature.

"That the Civic Administration **BE AUTHORIZED** to accommodate the 2013 budget transfers that are considered "housekeeping" in nature, and do not impact the Corporate Net Operating Budget. (4k/5/SPPC)"

'Housekeeping' adjustments primarily include items that are budgeted centrally at the time of adoption of estimates (budget) and are re-allocated to Services throughout the year.

The following housekeeping budget adjustments were processed in 2013 up to the end of the second quarter:

- Adjustments to services to reflect the net change in fringe benefit costs (OMERS rate increase), along with the allocation of the 2013 position management savings.
- Allocation of computer and telephone budgets from various areas to the Information Technology Division.

Emerging Issues

Several service areas have advised Civic Administration of program service delivery pressures that will likely impact 2013 expenditures/revenues and 2014 budget. These issues include:

- **Personnel/Collective Agreements** – Outstanding arbitrations with the corporation's unions may have significant cost implications depending on the outcome of the grievance/arbitration process. It should also be noted that the London Professional Fire Fighters' Association agreement expired on December 31, 2010.
- **Ontario Works Decentralization** – On February 4, 2013 the Community and Protective Services Committee approved in principle an Ontario Works Decentralization plan and directed Civic Administration to report back with a detailed implementation plan. Although actions have been taken to begin to identify funding sources, the full impact of the costs associated with this initiative will not be known until the detailed implementation plan has been completed.
- **Fire Services** – The Fire Service area is currently going through an operational review conducted by an independent external consultant. The recommendations from the consultant and impact to the Fire Service area are unknown at this time.
- **Dearness Home** – Recommendations are pending from the outside party review of Dearness Home operations.
- **Waste Diversion** – The Provincial Government is currently reviewing legislation dealing with waste diversion (reduction) programs. The outcome and potential new funding arrangement may be in place for 2014.
- **Animal Services** – The current contract for animal control services expires December 31, 2013. At this point it is unclear what the cost of the new contract will be for 2014 and whether additional service enhancements will be desired by Council.
- **Information Technology** – Information Technology Services is responsible for managing corporate wide systems. An increased investment in information technology infrastructure such as Storage Area Network (SAN), Client Management System (CMS), Human Resource Information System (HRIS), and Corporate Asset Management (CAM) may be required in order to support corporate initiatives.

Civic Administration is taking steps to mitigate and accommodate these potential pressures within the approved 2013 budget and/or in the development of the 2014 budget.

2013 WATER AND WASTEWATER & TREATMENT BUDGET

Water Budget

As of June 30, 2013, the Water rate supported budget anticipates a \$3.4 million surplus by year end. Water consumption is continuing to decrease which will have a negative impact on net billing volumes. It is expected that a decrease of 1.15 million m³ (43.2 million m³ to 42.05 million m³) in consumption will occur in addition to the 2013 budgeted 1.3 million m³ reduction (44.5 million m³ to 43.2 million m³). However, due to the recently approved rate structure that became effective March 1, 2013, the loss in consumption based revenues have been mitigated by additional revenues generated by the fire protection charge and the shifting of the rate blocks between the various customer classes.

Operational savings are projected to be realized from lower than expected service fees resulting from the re-negotiation of the 2013 service level agreement with London Hydro, purchase of water due to lower pumpage volumes, planned savings from personnel, and operating supply savings due to cost containment. Consistent with past practice, Civic Administration continues to review further cost containment measures to balance the year end position.

Water Budget (\$ 000's)					
	2013 Revised Budget	Actual as at June 30, 2013	Actual % Spend/ Realized	Projected Year End Position	Projected Year End Savings/ (Deficit)
Revenues	(62,564)	(24,182)	38.7%	(64,799)	2,235
Expenditures	62,564	30,782	49.2%	61,441	1,123
Net	-	(6,600)	N/A	3,358	3,358

Wastewater & Treatment Budget

The Wastewater & Treatment budget anticipates a \$1.6 million surplus by year end. A deficit is projected from reduced sanitary sewer system revenues based on decreased sanitary sewer billing volumes. Consistent with the Water Budget (as noted above), water consumption (used to assess the sanitary portion of sewer charges) is expected to be lower than what the budgeted revenues were based on. Offsetting the anticipated shortfall in consumption based revenues is higher than anticipated revenues from the high strength waste charge.

Operational savings are projected to be realized from lower than expected service fees resulting from the re-negotiation of the service level agreement with London Hydro. Additionally, lower than expected expenditures in operating supplies, personnel, and external equipment rentals as a result of cost containment, and efficiencies are projected.

Wastewater & Treatment Budget (\$ 000's)					
	2013 Revised Budget	Actual as at June 30, 2013	Actual % Spend/ Realized	Projected Year End Position	Projected Year End Savings/ (Deficit)
Revenues	(79,058)	(29,539)	37.4%	(79,005)	(53)
Expenditures	79,058	28,636	36.2%	77,375	1,683
Net	-	903	N/A	1,630	1,630

Emerging Issues

- Ongoing revenue pressures from lower than anticipated water consumption as a result of weather conditions and conservation efforts by users of the water system. This will result in a further reduction in estimated billed volume of water to 41.03M m³ for the 2014 budget.
- Various legislative/compliance requirements along with cost savings opportunities – including fire hydrant colour coding, air and vacuum valve maintenance, shut-off valve maintenance, District Meter Areas, Computerized Maintenance Management System, hydraulic and water quality monitoring, Source Water Protection etc. The cost implications of these initiatives are still being finalized and will be reflected in the 2014 budget.
- Consideration is being given to expanding the scope of the Greenway Wastewater Treatment Plant (WWTP) expansion planned for 2014. While it is expected that this would increase the costs of the plant expansion by up to \$20M, it would allow the indefinite deferral of other expansions planned at Adelaide and Vauxhall WWTPs. A decision regarding whether to proceed with the larger expansion at Greenway in 2014 will be made in the coming weeks and reflected in the 2014 budget if necessary.

- The Wastewater & Treatment area is currently working with an external consultant to develop an optimization plan to find latent capacity at existing WWTPs, reduce the long-term capital costs of plant expansions and plan for more stringent future effluent criteria. A final report is expected in late 2013 and the recommendations could have an impact on future capital and operating budgets.

2012 YEAR END UPDATES

2012 Year End Updates resulting from Year End Audits

After submitting the 2012 Operating Budget Status Report – Fourth Quarter Report to the Finance and Administrative Services Committee on April 9, 2013, London & Middlesex Housing Corporation and the Middlesex London Health Unit amended their year end positions based on audit.

The London & Middlesex Housing Corporation year end surplus decreased by \$22,971 to \$493,612. The Middlesex London Health Unit year end surplus decreased by \$86,830 to \$63,170. Consistent with Council resolution, these fund amendments will be drawn down from the Operating Budget Contingency Reserve.

Unfunded Liabilities

The City of London's net unfunded liability (employee benefits payable, solid waste landfill closure and post closure liability) is \$100.6 million (\$98.4 million 2011). Over the years, Council has authorized Civic Administration to allocate personnel savings and unspent contingency budgets to the Unfunded Liability Reserve in order to reduce the growth in this liability.

POSITION MANAGEMENT AND VACANCY MANAGEMENT

All positions that become vacant, with some exceptions, are subject to 90 days savings corporately. The savings from these positions are contributed to Efficiency, Effectiveness and Economy Reserves to be used as a one-time funding source for initiatives recommended by the Senior Leadership Team. Any savings due to vacancies longer than 90 days accrue to services and are included in the above projections identified earlier in the report.

The Corporation realized \$697,086 (\$629,086 – property tax supported; \$20,794 – wastewater; and \$48,115 – water) for the period of January 1, 2013 to June 30th, 2013. During the same period in 2012, the Corporation realized \$1,105,021 (\$914,348 – property tax supported; \$103,185 – wastewater; and \$87,488 – water).

SUMMARY

Civic Administration anticipates a favourable \$4.3 million year end position in the 2013 Property tax Supported budget if trends experienced to date continue. The major factors contributing to this projected position are additional revenue from the Ministry of Finance for a one-time payout of Ontario Municipal Partnership Funding, savings in Corporate Services, Social & Community Support Services, Housing, and snow control.

The Water budget anticipates a \$3.4 million surplus and the Wastewater & Treatment budget anticipates a \$1.6 million surplus. These two budgets continue to experience shortfalls in consumption based revenue due to lower than expected water consumption patterns. The declines in consumption based revenues are offset by operational savings and increases to non-consumption based revenues.

Civic Administration will continue to monitor and review corporate financial projections and trends for the remainder of 2013.

Prepared By:	Reviewed By:
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Recommended By:	
Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer	

APPENDIX 'A'

2013 OPERATING BUDGET STATUS
2nd QUARTER REPORT
(\$ 000) ⁽¹⁾

	2013				2nd QUARTER REPORT	
	COUNCIL APPROVED NET BUDGET	REVISED NET BUDGET ⁽²⁾	AS AT June 30, 2013	ACTUAL % SPENT	PROJECTED YEAR END POSITIONS	PROJECTED YEAR END SURPLUS/ (DEFICIT)
Culture:						
Cultural Services	3,777	3,788	2,403	63.4%	3,878	(90)
Heritage	95	96	43	44.8%	87	9
Libraries	18,388	18,388	9,228	50.2%	18,388	0
Total Culture	22,260	22,272	11,673	52.4%	22,353	(81)
Economic Prosperity:						
Economic Development ⁽³⁾	9,431	9,481	2,488	26.2%	9,467	14
Total Economic Prosperity	9,431	9,481	2,488	26.2%	9,467	14
Environmental Services:						
Conservation Authorities ⁽⁴⁾	3,093	3,093	1,723	55.7%	3,093	0
Environmental Stewardship	688	712	327	45.8%	712	0
Garbage Recycling & Composting	12,882	12,433	5,367	43.2%	12,433	0
Total Environmental Services	16,662	16,238	7,417	45.7%	16,239	0
Parks, Recreation & Neighbourhood Services:						
Neighbourhood & Recreation Services ⁽⁵⁾	17,985	18,065	20,655	114.3%	17,265	800
Parks & Urban Forestry	10,574	10,632	4,644	43.7%	10,672	(40)
Total Parks, Recreation & Neighbourhood Services	28,560	28,697	25,298	88.2%	27,937	760
Planning & Development Services:						
Building Controls	(1,380)	(1,244)	(1,611)	129.5%	(1,288)	44
City Planning & Research	2,825	2,874	1,379	48.0%	2,895	(21)
Development Services	3,486	3,525	1,641	46.5%	3,327	198
Total Planning & Development Services	4,932	5,155	1,409	27.3%	4,934	221
Protective Services:						
Animal Services	1,065	1,062	287	27.1%	1,112	(50)
By-Law Enforcement	1,295	1,126	451	40.1%	1,389	(263)
Emergency & Security Management	1,158	1,176	553	47.1%	1,176	0
Fire Services	54,543	54,545	17,943	32.9%	54,545	0
Police Services	90,067	90,057	46,476	51.6%	90,057	0
Total Protective Services	148,128	147,965	65,710	44.4%	148,278	(313)
Social & Health Services:						
Housing	20,547	20,646	11,731	56.8%	20,046	600
Long Term Care	4,248	4,835	3,836	79.3%	4,835	0
Primary Health Care Services	16,942	16,942	7,317	43.2%	16,942	0
Social & Community Support Services	26,196	26,031	19,260	74.0%	25,561	470
Total Social & Health Services	67,933	68,453	42,144	61.6%	67,383	1,070
Transportation Services:						
Parking	(2,904)	(2,896)	(1,892)	65.3%	(2,924)	28
Public Transit	25,495	25,495	13,258	52.0%	25,495	0
Roadways	33,241	32,729	15,334	46.9%	32,451	278
Total Transportation Services	55,832	55,328	26,700	48.3%	55,022	306
Corporate, Operational & Council Services:						
Corporate Services	40,552	41,587	17,319	41.6%	40,898	689
Corporate Planning & Administration	2,076	2,003	722	36.0%	2,003	0
Council Services	3,172	3,233	1,427	44.1%	3,041	192
Financial Management ⁽⁶⁾	80,079	79,093	22,778	28.8%	77,753	1,340
Public Support Services	22	132	(178)	(134.9%)	72	60
Total Corporate, Operational & Council Services	125,900	126,049	42,067	33.4%	123,768	2,281
Total Property Tax Requirements	479,637	479,637	224,907	46.9%	475,380	4,258

1) Subject to rounding.

2) Includes housekeeping budget transfers. As authorized by Council's resolution at the time of the adoption of the 2013 budget, Civic Administration can approve transfers between accounts that are considered 'housekeeping' in nature. These adjustments primarily include items that are budgeted centrally, and during the year are distributed to various services.

3) Actual expenditure for the Economic Development Budget appears low as of June 30th since contribution to reserve funds are not incurred until late October/ early November.

4) Kettle Creek Conservation Authority and Lower Thames Valley Conservation Authority have already received their 2013 appropriation.

5) Neighbourhood & Recreation Services actual expenditures appears high as the Children's Services Provincial Subsidy is recognized later in the year.

6) Actual expenditure for the Financial Management Budget appears low as of June 30th since capital financing costs and contribution to reserves and reserve funds are not incurred until late October/early November.