



COUNCIL INFORMATION ITEM

MEETING DATE: August 17, 2020

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REPORT TITLE: Second Quarter Financial Variance Report

EXECUTIVE SUMMARY

It is imperative that Administration keeps Council informed throughout the year of the financial health of the City. This report outlines the second quarter operational variance report for the City of Leduc for the period January 1, 2020 to June 30, 2020.

BACKGROUND

OPERATIONAL REPORTING

The attached report outlines operational revenues collected and operational expenses incurred up to the end of June 2020 in contrast to the 2020 operational budget allocations and the previous year's actual operational revenues and expenses for the same time period. Reports for individual Councillors' expenditures are also attached.

At this time expectations are that revenue and expenses would be at approximately 50% by the end of June, representing half of the fiscal year. However, certain factors can affect this such as seasonality or timing. In 2020, COVID-19 has had a significant impact on City operations resulting in decreased revenue and decreased expenditures across the organization. Some of the areas that differ materially from budget either by dollar value or percentage will be discussed further below. As of June 30, 2020, the majority of revenue streams are between 27% and 52% of budget and overall revenue is at 49% of budget. The majority of expenditures are between 29% and 49% of budget with overall expenditures at 45% of budget.

On May 25, 2020, Council approved the use of \$790K from the Mill Rate Stabilization Fund to offset lost revenue (estimated to April 30) due to COVID-19. Early indications for the remainder of 2020 show that the City may not require the usage of the Mill Rate Stabilization Funds.

As stated above, Administration would like to discuss further some of the areas where the variances differ materially.

Revenue

Enforcement Services

At this time Enforcement Services is at 27% of budget. To date the enforcement contributions have been lower than anticipated due to the discontinuation of the Intersection Safety Device program and not issuing enforcement fines from mid-March to June as a result COVID-19 impacts. Early projections are indicating this will be at about 50% of budget at year-end.

Interest & Penalties

Interest on investments is at 164% to date. In early January, bonds were redeemed and reinvested to take advantage of favorable market rates upon guidance from our investment advisors. In addition, timing continues to be a contributor as the City's investment portfolio is reconciled as part of the year-end process.

Other Income

Overall other income is at 3% of budget. Off-site levy revenue is the largest component which is at 0% of budget. It is anticipated that \$219K in off-site levy revenue will be collected by year-end compared to a budget of \$3.0 million. Of this projected amount, \$219K is associated with levies collected on existing subdivisions meaning the growth has already been captured. An additional note of consideration is that the revenue collected and projected for 2020 is all residential in nature and at this time there is no indication that there will be non-residential offsite activity.

Rent Revenue

Overall rent revenue is at 28% of budget. This is largely due to the Leduc Recreation Centre ("LRC"), the Alexandra Arena and the Maclab Theatre ("Maclab") closing in March due to the COVID-19 pandemic. Early projections are indicating this revenue stream will be at 61% by year-end.

Sale of Services

Revenue from sale of services is at 37% of budget. This is also largely due to the impacts of the COVID-19 pandemic. Transit was free from late March to the end of June. The LRC and Maclab were closed in mid-March and were closed to the end of the second quarter. Maclab continues to be closed and the LRC is opened at a reduced capacity. The opening of the Alexandra Pool was also delayed until July. As a result of reduced revenues due to facility closures, projections are indicating this revenue stream will be at 74% by year end.

Utility Services Revenue

It is important to mention that although overall, utility services revenue is on budget at 50%, revenue from water sales is slightly below budget at 48%. Temporary business closures due to COVID-19 resulted in lower than normal commercial water consumption. This is consistent with water purchases also being at 48% of budget. Franchise fees are at 56% of budget at this time.

Expenses

Salaries, Wages and Benefits

Overall, salaries, wages and benefits are at 47% of budget. Benefits are on budget at 50% due to many employees paying up CPP and EI benefits in the first half of the year. Salaries and wages are at 47% of budget, due largely to vacancies that were not filled and temporary layoffs at the LRC due to COVID-19.

Grants to Organizations

Grants to organizations is at 61% of budget. This is entirely due to timing as the majority of grants are paid out earlier in the year.

Interest on Long Term Debt

Interest on long term debt is at 42% of budget. This is entirely due to timing of when debt payments are recorded.

Materials and Supplies

Materials and supplies are at 41% of budget. This is due to timing of expenditures, seasonality and in 2020 it is impacted by COVID-19. Expenditures in some areas increased due to the purchase of additional personal protective equipment

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("PPE") to protect employees and patrons against the virus. However, as a result of City facilities being closed to the public, events being cancelled and the majority of office staff working from home, most areas experienced a decline in materials and supplies purchases. Some of the areas that deviate away from the expected 50% include administration/records at 26% of budget due to lower postage cost. Communications and marketing is at 20% of budget. There were \$44K of unbudgeted materials and supplies purchased under general government which are directly related to COVID-19. Equipment repairs is at 39% of budget and transit is at 34% of budget due largely to a decrease in fuel purchases. Community services administration is at 5% of budget due to some special projects such as Canada Day celebrations, Rock the Rails and the Sports Hall of Fame Gala being cancelled due to COVID-19. Although, seasonality and timing drive a lot of these variances, most second quarter variances are a result of the impacts of COVID-19 on City operations. Overall, materials and supplies is anticipated to be at 88% of budget at year-end.

Training and Development

Training and development are at 29% of budget due to the cancellation of internal and external training opportunities as a result of the COVID-19 pandemic.

Utilities Expense

Utilities expense is at 43% of budget to date and includes all utilities expense for City facilities and parks. This is lower largely due to the closure of City facilities to the public and the majority of office staff working from home for the entire second quarter.

Operational Closing Remarks

On closing, Administration recognizes the impact of the COVID-19 pandemic on City operations. Every effort is being made during this unprecedented time to minimize the impact on the health and well-being of City staff and citizens and the financial health of the organization. It is anticipated that revenues and expenditures will be below budget at year-end.

CAPITAL REPORTING

At the end of June 2020 capital expenditures vs. 2020 capital budget is at 21% for the City's capital program and 7% for the off-site levy capital program. The second quarter capital expenditures are typically low as this is the time when construction usually begins. Most invoices will be received for payment in the 3rd and 4th quarters. A more detailed capital report will come forward in the Q3 financial reporting.

COUNCIL EXPENSES BY COUNCILLOR

At Council's direction, Council expense reports for the Mayor and each Council member have been attached to this report. This is intended to create enhanced transparency for Council expenditures. It is important to note that Council variances are favorable for both training and meeting expenses due to the cancellation of training opportunities and reduced face-to-face meetings as a result of COVID-19.

ATTACHMENTS

1. City of Leduc Operating Variance Report from January 1, 2020 to June 30, 2020.
2. City of Leduc Capital Project Report from January 1, 2020 to June 30, 2020.
3. City of Leduc Council Expenses by Council Member from January 1, 2020 to June 30, 2020.