

Consolidated Clause from Report No. 14 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its regular meeting held on November 26, 27 and 28, 2002.

4a**Second Quarter 2002 Operating Variance Report**

(City Council at its regular meeting held on November 26, 27 and 28, 2002, adopted this Clause, without amendment.)

(City Council on October 29, 30 and 31, 2002, deferred consideration of this Clause to the next regular meeting of City Council scheduled to be held on November 26, 2002.)

The Policy and Finance Committee recommends the adoption of the Recommendation of the Budget Advisory Committee embodied in the following communication (October 4, 2002) from the City Clerk:

Recommendations:

The Budget Advisory Committee recommended to the Policy and Finance Committee, and Council, the adoption of the report (September 26, 2002) from the Chief Financial Officer and Treasurer, subject to adding that:

- (a) each Department, Agency, Board and Commission, be requested to report to the Budget Advisory Committee providing a strategy on how to handle overspent budgets to bring such budgets back to zero; and
- (b) each Department, Agency, Board and Commission, be requested to call upon the Chief Financial Officer and Treasurer, if required, to assist in meeting these goals and reviewing records and reports on an 'as needed' basis.

Background:

The Budget Advisory Committee at its meeting held on October 4, 2002, had before it a report (September 26, 2002) from the Chief Financial Officer and Treasurer providing a summary of the gross and net expenditure results of the City of Toronto for the six months of operations ended June 30, 2002, and projections of gross and net expenditures for the year ending December 31, 2002; and recommending that:

- (1) the technical adjustments contained in this report, and detailed in Appendix "D", be approved;
- (2) Council request the Province to provide additional funding to cover the projected shortfall in shared funded programs in Toronto Public Health; and

- (3) the operating variance report for the period ended June 30, 2002 be forwarded to the Policy and Finance Committee and Council for information.

(Report dated September 26, 2002, addressed to the
Budget Advisory Committee from the
Chief Financial Officer and Treasurer)

Purpose:

The purpose of this report is to provide a summary of the gross and net expenditure results of the City of Toronto for the six months of operations ended June 30, 2002, and projections of gross and net expenditures for the year ending December 31, 2002.

Financial Implications and Impact Statement:

Net expenditures for the six-month period ended June 30, 2002 were \$100.5 million or 7.9 percent under spent due mainly to timing differences between the recording of expenditures/revenues and the budget. Gross expenditures were under-spent by \$191.6 million, while revenues were under-achieved by \$91.0 million. However at this time, preliminary projections to year-end indicate a corporate operating budget surplus of \$12.3 million.

As approved by Council at its meeting of May 21-23, 2002, the Toronto Transit Commission will cover its projected year-end budget shortfall of \$30.0 million by using the \$24.0 million in the Riders Reserve Fund and reducing its Operating Budget Contribution to Capital by \$6.0 million.

Recommendations:

It is recommended that:

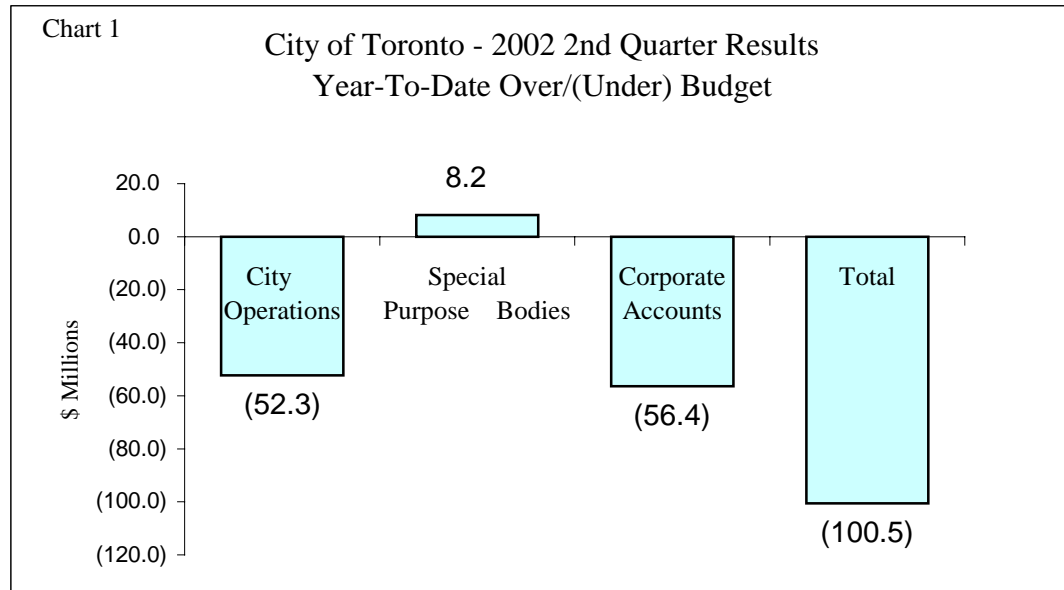
- (1) the technical adjustments contained in this report, and detailed in Appendix D, be approved;
- (2) Council request the Province to provide additional funding to cover the projected shortfall in shared funded programs in Toronto Public Health; and
- (3) the operating variance report for the period ended June 30, 2002 be forwarded to the Policy and Finance Committee, and Council, for information.

Comments:

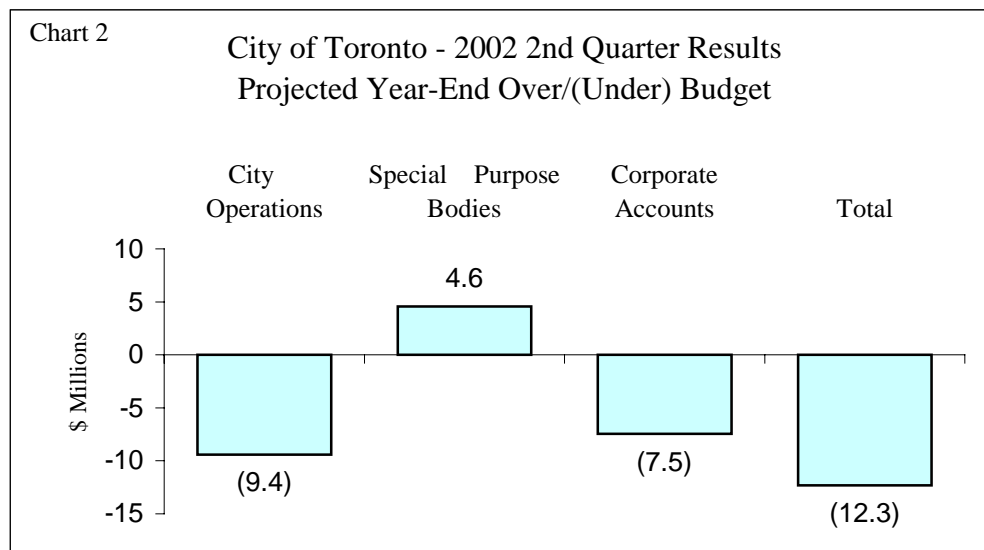
Overview:

The June 30, 2002, operating variance report shows a net year-to-date under expenditure of \$100.5 million or 7.9 percent, with a significant component of the under expenditure accounted for by timing differences between the recording of expenditures/revenues and the budget. As shown on Chart 1, City Operations ended the first six months with a net under expenditure of

\$52.3 million or 7.2 percent. Corporate Accounts contributed \$56.4 million towards the surplus, and Special Purpose Bodies reported a net over expenditure of \$8.2 million.



City Operations projects an under expenditure at year-end of \$9.4 million due mainly to projected savings in winter maintenance costs and projected revenues in excess of budget in Fire Services. Special Purpose Bodies are projecting to be over budget at year-end by \$4.6 million due primarily to over expenditures in Toronto Public Health. Corporate Accounts are projecting to be under budget at year-end by \$7.5 million due to financing expenditures in Capital and Corporate Financing (See Chart 2). Explanations for these variances are included in the detailed sections below.



Consulting Costs:

The total 2002 budget for consulting costs is \$6.4 million or 0.2 percent of the total net expenditure budget (\$2.8 billion). Year-to-date consulting costs were under spent by \$1.1 million or 55.8 percent, primarily in WES Technical Services \$0.8 million - Waterfront agency needs to be created to approve the environmental assessment; and Economic Development \$0.2 million - timing difference between the reversal of year-end accruals and the posting of actuals. The projected year-end expenditure of \$5.1 million, will result in an under expenditure of \$1.3 million or 20.2 percent.

In relation to Recommendation No. (1) of the report dated May 31, 2002 from the Chief Administrative Officer, a section on consulting costs will be included in the preliminary year-end 2002 Operating Variance Report to be completed in January 2003. Nevertheless, consistent with last year, consulting costs will remain a zero-based item and will require appropriate business cases.

Sole-Sourced Consulting Contracts:

Six consulting contracts (greater than \$7,500.00) totalling \$0.4 million were sole-sourced during the first six months of 2002. The reasons for sole-sourcing are detailed in Appendix F and were provided by the relevant Programs and ABC's.

Discussion of significant individual Department/Program variances as presented in Appendices A, B and C follows below:

(1) Community and Neighbourhood Services (CNS)

Table 1			
Net Variances (\$ Millions)			
		June, 2002	Projected YE 2002
		Over/(Under)	Over/(Under)
(a)	Children's Services	(3.2)	0.0
(b)	Homes for the Aged	(2.5)	(0.9)
(c)	Shelter, Housing & Support	(1.2)	(1.0)
(d)	Social Development & Administration	(0.1)	(0.1)
(e)	Social Services	(3.3)	(0.2)
Total Variance		(10.4)	(2.2)

CNS reported a year-to-date net under expenditure of \$10.4 million or 4.2 percent, and anticipates under spending of \$2.2 million at year-end.

Children's Services showed favourable gross and net variances of \$18.6 million or 12.1 percent and \$3.2 million or 10.1 percent, respectively. The gross expenditure variance is largely attributed to under spending in both Purchased Childcare and Ontario Works. This is due to lower than budgeted service levels resulting from insufficient Provincial funding.

The Homes for the Aged net favourable variance of \$2.5 million or 21.0 percent, is primarily due to salaries and benefits expense incurred in a pattern different than the budget calendarization. To a large degree, this will self-correct by year-end.

Year-to-date, Social Services reported a net favourable variance of \$3.3 million or 3.1 percent, mainly attributable to under expenditures of \$1.2 million in Program Delivery and Program Support and \$2.0 million in Ontario Disability Support Payment and Mandatory Program expenditures due to lower than budgeted provincial billings.

(2) Works and Emergency Services (WES)

Table 2			
Net Variances (\$ Millions)			
		June, 2002	Projected YE 2002
		Over/(Under)	Over/(Under)
(a)	Emergency Medical Services	(0.5)	(0.0)
(b)	Emergency Preparedness Management	(1.6)	(0.4)
(c)	Solid Waste Management	(6.2)	0.2
(d)	Fire Services	(1.4)	(2.0)
(e)	Transportation	(8.0)	(3.2)
(f)	Works - Support Services	1.7	(0.2)
(g)	Works - Technical Services	2.1	0.0
Total Variance		(13.9)	(5.7)

For the second quarter, Solid Waste Management reported a favourable net expenditure variance of \$6.2 million or 13.9 percent. This variance was largely in salaries/benefits as a result of a delay in transferring actual expenditures relating to the Litter Collection staff from the Transportation Division to Solid Waste. Non-payroll items also contributed to the variance in the recording of payment in lieu of taxes and paying contracted collection services.

The year-to-date under spending of \$8.0 million or 9.5 percent in Transportation is mainly attributed to delays in expenditures for roadway and roadside maintenance and savings in contracted winter maintenance costs as a result of the mild winter conditions experienced in the early part of this year.

By year-end, WES projects an under expenditure of \$5.7 million or 1.0 percent. Subject to normal weather conditions for the last part of 2002, Transportation projects under spending winter maintenance costs by \$3.2 million. Fire Services projects over achieving the revenue budget by \$2.0 million because the favourable effect of the Emergency Incident Reporting System (EIRS) on collecting deferred 2001 revenues has been fully realized.

Solid Waste Management anticipates an over expenditure of \$0.2 million or 0.2 percent at year-end. This is primarily as a result of under achieved revenue due to lower than expected paid tonnage (i.e., loss of commercial clients during the service disruption).

(3) Economic Development, Culture and Tourism (EDCT)

Table 3		
	Net Variances (\$ Millions)	
	June, 2002 Over/(Under)	Projected YE 2002 Over/(Under)
(a) Culture	(0.4)	0.0
(b) Customer & Business Support	(0.6)	0.0
(c) Economic Development	(0.5)	0.0
(d) Parks & Recreation	(18.9)	0.0
(e) World Youth Day	(0.1)	0.0
(f) Tourism	0.8	0.0
Total Variance	(19.7)	0.0

Year-to-date, EDCT was under spent by \$19.7 million or 21.0 percent, mainly attributable to Parks and Recreation. Parks and Recreation has under spent the budget largely in salaries/benefits of \$8.8 million and \$9.3 million relating to the Toronto District School Board (which included a \$5.4 million liability accrual). EDCT forecasts a balanced budget at year-end and a review of budget calendarization will be done for the 2003 budget process.

(4) Urban Development Services (UDS)

Table 4		
	Net Variances (\$ Millions)	
	June, 2002 Over/(Under)	Projected YE 2002 Over/(Under)
Urban Development Services	(9.8)	0.0
Total Variance	(9.8)	0.0

On a net basis, UDS experienced a favourable net variance of \$9.8 million mainly due to over achievement of revenues (\$7.2 million). As well, the timing of revenue streams across the department has contributed to the favourable variance (i.e., Building Division has changed the permit issuance business process). The department anticipates being on budget at year-end.

(5) Corporate Services

Table 5			
		Net Variances (\$ Millions)	
		June, 2002	Projected YE 2002
		Over/(Under)	Over/(Under)
(a)	City Clerk's	3.0	(0.2)
(b)	Court Services	(5.5)	(0.8)
(c)	Services Improvement & Innovation	(0.2)	0.0
(d)	Corporate Communications	(0.1)	0.0
(e)	Facilities & Real Estate	3.1	1.0
(f)	Fleet Management	4.8	0.4
(g)	Human Resources	(1.1)	0.0
(h)	Information & Technology	(1.1)	(0.1)
(i)	Legal	0.8	0.0
Total Variance		3.7	0.3

Corporate Services is over spent by \$3.7 million or 4.2 percent to June 30, 2002. This variance will be significantly reduced by year-end. The Department projects an over spending of \$0.3 million or 0.2 percent.

City Clerk's office under achieved revenue by \$3.0 million due to distribution of budget versus realization of revenue. This will self-correct by year-end.

Court Services is under budget by \$5.5 million, primarily due to delays in hiring staff to approved positions, second quarter billing not received from the Province and delays in processing journal entries.

Fleet Management reported a net over expenditure of \$4.8 million due primarily to timing differences related to interdepartmental recoveries for fuel and maintenance.

Facilities and Real Estate is reporting a net over expenditure of \$3.1 million due primarily to interdepartmental charges and recoveries and the loss of revenue from the sale of properties. This budget issue will be dealt with in a separate report to committee in the third quarter.

(6) Finance

Table 6		
		Net Variances (\$ Millions)
		June, 2002
		Over/(Under)
		Projected YE 2002
		Over/(Under)
	Finance	(0.2)
	Total Variance	(0.2)

For the period ended June 2002, the Finance Department reported a net under expenditure of \$0.2 million. The department anticipates a balanced budget at year-end.

(7) Other

Table 7		
	Net Variances (\$ Millions)	
	June, 2002 Over/(Under)	Projected YE 2002 Over/(Under)
(a) Audit	(0.3)	(0.0)
(b) Chief Administrator's Office	(0.5)	(0.2)
(c) Council	(1.3)	(1.7)
(d) Mayor's Office	0.0	0.0
Total Variance	(2.0)	(1.9)

Council reported a variance of \$1.3 million for the period ended June 30, 2002 and is projecting a year-end net under expenditure of \$1.7 million or 10.6 percent. This is primarily due to some Councillors not spending their full office budget allocation and/or opting to employ less than the three approved positions each.

(8) Special Purpose Bodies

Table 8		
	Net Variances (\$ Millions)	
	June, 2002 Over/(Under)	Projected YE 2002 Over/(Under)
(a) Toronto Public Health	3.0	4.5
(b) Toronto Public Library	(0.3)	0.0
(c) Association of Community Centres	(0.1)	0.0
(d) Exhibition Place	(1.2)	0.0
(e) Theatres	(0.2)	(0.2)
(f) Toronto Zoo	0.3	0.5
(g) Arena Boards of Management	(0.3)	0.0
(h) Yonge/Dundas Square	0.0	0.0
(i) Toronto Region Conservation Authority	0.0	0.0
(j) Toronto Transit Commission	6.9	(0.0)
(k) Toronto Police Services & TPS Board	0.0	(0.3)
Total Variance	8.2	4.6

* n/a = information not available

The year-to-date unfavourable net variance of \$8.2 million or 1.6 percent is mainly due to over spending in Toronto Public Health (\$3.0 million) and the Toronto Transit Commission (\$6.9 million).

Both the year-to-date and projected year-end over spending in Toronto Public Health relate to salaries and benefits. Contributing issues include: unanticipated vacation payouts and separation packages; gapping fell below 4.6 percent target; unforeseen pressures resulted in overtime and hiring unfunded positions (i.e., due to TB outbreak); and staff reductions have not been achieved due to lack of permanent vacancies and labour relations issues. Payroll costs will be contained wherever possible through re-allocations of expenditures and close monitoring of costs (i.e., overtime, gapping levels, etc.). As well, strategies to reduce non-payroll expenditures will be implemented and a request will be made to the Province to fund the shortfall.

The Toronto Zoo is projecting year-end over spending of \$0.5 million due primarily to revenue shortfalls as a result of poor weather earlier this year.

The Toronto Transit Commission projects a year-end over expenditure of \$30.0 million. However, as approved by Council at its meeting of May 21-23, 2002, the Toronto Transit Commission will cover its projected year-end budget shortfall by using the \$24.0 million in the Riders Reserve Fund and reducing its Operating Budget Contribution to Capital by \$6.0 million. The Toronto Transit Commission now projects actual ridership for 2002 to be 412 million, versus a budgeted ridership of 418 million.

As at June 30, 2002, the Toronto Police Service is projecting a year-end surplus of \$0.3 million. This surplus does not include the impact of the salary settlement for the 2002 to 2004 collective agreement. The estimated net impact of the collective agreement on 2002 expenditures is \$18.8 million. The Operating Budget already includes a provision of \$14.6 million for salary increases, which results in a shortfall of \$4.2 million. The Toronto Police Services Board will be requesting that Council approve a \$4.2 million draw from the City to cover the shortfall.

(9) Corporate Accounts

	Net Variances (\$ Millions)	
	June, 2002 Over/(Under)	Projected YE 2002 Over/(Under)
Consolidated Grant Program	(4.8)	0.0
Capital & Corporate Financing	0.0	(15.0)
Non-Program Expenditures	(18.9)	(1.1)
Non-Program Revenue	(32.7)	8.7
Total Variance	(56.4)	(7.5)

Year-to-date, Corporate Accounts were under spent by \$56.4 million on a net basis. This under expenditure is primarily due to budget allocation timing differences. For example, the favourable variance in Non-Program Revenue is mainly attributed to Payments in Lieu (PIL). PIL levies are issued twice yearly and in 2002 they were issued in January and May. However, the year-to-date budget for PIL represents only 50 percent of the yearly levy, thus resulting in a favourable variance of \$58.2 million. This will self-correct by year-end. However, current

projections reflect an \$8.7 million Non-Program Revenue shortfall due to parking and tax penalties. Corporate Accounts project being under budget by \$7.5 million or 3.8 percent at December 31, primarily due to a delay in issuing debt for capital projects. This will result in a \$15.0 million projected year-end under expenditure for Capital and Corporate Financing.

Technical Adjustments:

Appendix D sets out technical adjustments made during the period January 1 to June 30, 2002. These adjustments realign the Council approved budget to ensure improved accountability and reporting. They do not increase the 2002 Council Approved Corporation Budget.

Capital and Corporate Financing:

Appendix E segregates the Capital and Corporate Financing charges from the Net Expenditures of Departments and Programs.

Conclusion:

As summarized in Table 10, the overall expenditure level for the City of Toronto is within the approved budget for City Departments, Special Purpose Bodies and Corporate Accounts for the six-month period ended June 30, 2002. However, an overall year-end budget surplus of approximately \$12.3 million is projected at this time.

	Year-End Net Variances (\$ Millions)	
	June, 2002	Projected YE 2002
	Over/(Under)	Over/(Under)
(1) Community & Neighbourhood Services	(10.4)	(2.1)
(2) Works & Emergency Services	(13.9)	(5.7)
(3) Economic Development, Culture & Tourism	(19.7)	0.0
(4) Urban Development Services	(9.8)	0.0
(5) Corporate Services	3.7	0.3
(6) Finance	(0.2)	(0.0)
(7) Other	(2.0)	(1.9)
Total - City Operations	(52.3)	(9.4)
(8) Special Purpose Bodies	8.2	4.6
(9) Corporate Accounts	(56.4)	(7.5)
Sub-Total	(48.2)	(2.9)
Total Variance	(100.5)	(12.3)

Contact Names:

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Mr. Bert Riviere, Manager, Budget Services, Tel: 397-4227, Fax: 392-3649.

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