






Subject: **Second Quarter Variance Report**
 Meeting Date: Tuesday, September 12, 2023
 Prepared By: Marika von Mirbach, Financial Planning Coordinator
 Presented By: Marika von Mirbach, Financial Planning Coordinator

RECOMMENDED MOTION:

1. That Council approve the contribution of \$946,246 of investment return revenue to the Revenue Stabilization Reserve.
2. That Council approve a draw of \$3,800 from the Contingency Reserve to fund over-budget operating projects as detailed in *Appendix C*.
3. That Council approve draw of \$107,977 from the Capital Equipment Plan Reserve to fund over-budget capital equipment plan purchases as detailed in the body of this report.

STRATEGIC PLAN ALIGNMENT: (Check all that apply)

	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>		<input checked="" type="checkbox"/>		<input type="checkbox"/>
High Quality Infrastructure		Economic Resilience		Quality of Life		Effective Leadership		Level of Service	

RELEVANT LEGISLATION:

Provincial (cite)- Financial affairs of the municipality are governed by the *Municipal Government Act*

Council Bylaw/Policy (cite)- Internal policy states that Corporate Services will provide Council with a quarterly financial report and preliminary year-end report.

BACKGROUND/PROPOSAL:

Council receives quarterly financial reports during the year. These reports are intended to inform Council of financial transactions to-date and how expenditures, revenues and other financial indicators compare to the annual operating budget and plan which Council has previously approved.

The purpose of this report is to:

- Report on the 2023 Operating Budget performance to-date.
- Report on the Operating Budget Projects approved in the 2023 Operating Budget.
- Report on the status of all approved 2023 Capital Projects.
- Provide other supplementary information on key financial indicators for the municipality.

This is the report for the period ending June 30, 2023 (2nd Quarter).

DISCUSSION/OPTIONS/BENEFITS/DISADVANTAGES/OTHER CONSIDERATIONS:

The County is required under the *Municipal Government Act (MGA)* to approve both an operating and capital budget which are balanced and fully funded. To achieve this, the budget is prepared on a fiscal viability basis and is monitored and controlled to achieve this desired outcome of a balanced budget. As such, all budgeted revenues must equal budgeted expenditures.



The municipality follows the legislative financial requirements of the *MGA* and its supporting Regulations. In addition, the municipality meets or exceeds all policy statements of the Canada Public Sector Accounting Handbook, which is governed by the Chartered Professional Accountants Canada (CPA).

The budgeting process allows municipalities to prioritize projects, programs and service levels based on anticipated revenue and expenses. A municipality's annual budget routinely consists of two components:

- The **Operating Budget** plans for a municipality's day-to-day expenditures (e.g., salaries, wages, benefits, heat, electricity, and maintenance of buildings and infrastructure, etc.).
- The **Capital Budget** plans for the purchase and financing of assets or improvement of existing infrastructure (e.g., roads, water and wastewater facilities, county facilities and major projects, etc.)

This RFD includes the following Financial Reports:

- Operating Budget Summary by Function (Appendix A)
- Operating Budget Summary by Department (Appendix B)
- Operating Project Summary (Appendix C)
- Capital Project Summary (Appendix D)
- Cash and Investment Summary (Appendix E)
- Reserve Continuity Schedule (Appendix F)

Operating Budget Summary by Function (Appendix A)

The purpose of this schedule is to provide Council a corporate summary of the Operating Budget Performance for the six months ending June 30, 2023, and to provide explanations for **unfavourable** or **favourable** corporate results forecasted to year-end.

The body of this report will focus on *Appendix A*, which provides operating results by the classification of the revenue source or nature of expenditure. *Appendix B*, which is presented by organizational unit, is provided for reference on the individual performance of each department.

The total net forecasted revenue/expenditure year-end result anticipates a surplus of \$2,735,762. A significant portion, \$1,718,982, of the projected surplus relates to the receipt of unbudgeted funds from investment revenues. The remaining projected surplus on the core operating budget is \$1,016,870 which represents a 4% overall variance on the operating budget.

Revenue Summary - \$2,034,605 favourable forecasted to the end of the year.

The favourable revenue variance consists of:

- Other Revenue* - \$73,062 **favourable** consists of:
 - \$69,000 **favourable** of oilfield water revenues.
 - \$4,000 **favourable** from a donation for the Torrington fire department.
- Sale of Goods and Services* - \$169,554 **favourable** consists of:
 - \$115,000 **favourable** from the dust control program.
 - \$26,000 **favourable** from water distribution systems.
 - 12,700 **favourable** in campground revenues.
 - \$7,000 **favourable** from oilfield inspections.
 - \$8,800 **favourable** related to other small variances across departments including: paid parking, tax notification fees, map sales, and cemetery plot sales.
- Sales to Other Governments* - \$31,152 **favourable** consists of:
 - \$17,000 **favourable** to waste transfer site agreements.
 - \$14,000 **favourable** in reimbursable expenses related to agreements.



- iv. *Special Taxes and Frontage* - \$52,466 favourable relating to riser fees received which were not included in the approved budget.
- v. *Return on Investments* - \$1,718,892 favourable the high prime interest rate is resulting in higher than budgeted returns on the County's investments. *Motion #1* requests the contribution of the revenues above budget as at June 30th be contributed to the Revenue Stabilization Reserve.
- vi. *Transfer from Reserves* - \$16,200 favourable relates to reserve funded operating projects that have either been cancelled, or are projected to be under budget; further details can be found in *Appendix C*.

All other revenue streams are in line with expectations, and no significant year-end variances are anticipated.

Expense Summary \$401,157 favourable forecasted to the end of the year.

This net favourable expense variance consists of some favourable and some unfavourable variances within functions:

- i. *Contract Goods and Services* - \$130,860 unfavourable. This variance has a number of contributing factors including:
 - \$126,000 unfavourable related to contracted shop repairs; primarily related to significant repairs on graders.
 - \$13,000 unfavourable in Planning Department inspection fees.
 - \$31,400 favourable related to professional contracted services.
 - \$30,200 related to training, conferences and memberships partially related to ongoing position vacancies.
 - \$18,000 favourable in major maintenance initiatives.
 - \$10,000 favourable related to Explore Kneehill programming.
 - \$9,700 favourable in insurance expenditures.
 - \$9,000 favourable related to advertising and PR expenditures.
- ii. *Materials, Goods, Supplies, and Utilities* - \$231,080 unfavourable. This variance has a number of contributing factors including:
 - \$216,500 unfavourable in shop supplies primarily related to increased costs of parts and significant repair work required on specific units.
 - \$55,000 unfavourable in dust control materials, for which there is an offsetting positive revenue variance of \$115,000.
 - \$37,300 unfavourable for culverts, and grader blades.
 - \$11,000 unfavourable in weed control materials.
 - \$35,000 favourable in fuel.
 - \$20,300 favourable in general goods and supplies from various departments.
 - \$15,000 favourable for water for resale.
 - \$12,300 favourable for road network supplies.
 - \$3,700 favourable in utilities.
- iii. *Salaries and Wages* - \$919,661 favourable. The County has had multiple position vacancies in the first half of the year and anticipates continued vacancies for several positions in the second half of the year.
 - \$558,900 favourable in vacancies in permanent positions.
 - \$178,700 favourable in seasonal vacancies.
 - \$103,000 favourable related to a duplication of merit funding in the original budget.
 - \$55,400 favourable related to employee turnover.
 - \$24,000 favourable in Council reimbursement.
- iv. *Other Expenses* - \$24,658 favourable related to Economic Development special projects and Ag Services programming.

All other expenditure classes are in line with expectations with no significant year-end variances anticipated.



Operating Project Summary (Appendix C)

The County is undertaking 11 operating projects in 2023. The specific details on operating project budgets, expenditures to date, and expected final costs are detailed in *Appendix C*.

Overall Operating Projects have a projected **favourable** variance of \$16,200 (~ 2.21% of total Operating Projects budget), the contributing factors to this variance are noted below.

- Two (2) are anticipated to be slightly over-budget by \$3,800.
- One (1) is anticipated to be completed under budget.
- Seven (7) are anticipated to be completed on budget.
- One (1) is being delayed, enabling a more strategic approach.

Motion #2 requests increased funding of \$3,800 to be drawn from the Contingency reserve to fund the two over-budget operating projects.

Any operating projects which are completed under budget, or are being delayed, will reduce the funds drawn from the associated reserve.

Capital Project Summary (Appendix D)

The County is undertaking 19 capital projects in 2023. The specific details on capital project budgets, expenditures to date, and expected final costs are detailed in *Appendix D*.

Capital Projects overall have a projected **favourable** variance of \$372,522 (~2.76% of total Capital Projects budget) and the contributing factors to this variance are noted below:

- Six (6) Capital Projects are anticipated to be completed under budget.
- Ten (10) Capital Projects are anticipated to be completed on budget.
- One (1) is being delayed, enabling a more strategic approach.
- Capital Equipment Plan purchases are anticipated to be slightly over-budget by \$107,977, the breakdown of which includes:

The 2022 Capital Equipment Plan funding has an **unfavourable** variance of \$76,055. This variance is the result of discrepancies in amounts carried forward into 2023 for outstanding projects, which is offset by one (1) cancelled project.

The 2023 Capital Equipment Plan funding has an **unfavourable** variance of \$31,921. There are 19 Capital Equipment purchases captured inside this funding and contributing factors relating to the variance are captured below:

- Thirteen (13) of the Capital Equipment Plan purchases are over budget. The variances range from 0.4% to 18.8%, with an average variance of 9.4%. The greatest variances relate to passenger vehicle purchases, accounting for over 56% of the overall variance.
- Three (3) of the Capital Equipment Plan purchases are under budget.
- Three (3) of the Capital Equipment Plan purchases are projected to be on budget.

Motion #3 requests increased funding of \$107,977 to be drawn from the Capital Equipment Plan reserve to fund capital equipment plan purchases that are over-budget.

Any capital projects completed under-budget will reduce the funding drawn from the allocated reserve or the amount of grant funding utilized for the project.



Cash and Investment Summary (Appendix E)

Administration has endeavored to implement new investment strategies over the past couple of years to improve investment returns. As detailed in *Appendix E*, the rate of return on cash investments now ranges from 1.75% to 3.65%. These returns will increase in the third quarter due to further increases to the prime interest rate.

Reserve Continuity (Appendix F)

This schedule tracks the movements, based on Council approvals, of each of the County's reserves. The financial information reported in this schedule will only change if:

- Council approves new expenditures or amends project budgets.
- Projects are completed under budget.
- Unanticipated external funding, mainly grants, are approved post budget.

These changes will be reflected and reported on in the schedule as "Post Budget Approvals".

Administration has included a column to display funds anticipated to be returned to reserves based on estimated project surpluses/deficits. These transfers will not occur until projects are finalized, or Council approves motions to amend project funding, but have been included to better align the various appendices of this report.

Overall, based on budget approvals and investments in the County's infrastructure the utilization of reserves is anticipated to be approximately \$11 million, with offsetting contributions to reserves of \$8.3 million.

FINANCIAL & STAFFING IMPLICATIONS:

The overall financial position of the County continues to be positive with Administration and Council exercising prudent financial management.

The recommendations in this report will ensure a continuation of forward financial planning and value for dollar for ratepayers.

RECOMMENDED ENGAGEMENT:

Directive Decision (Information Sharing, One-Way Communication)			
Tools:	Individual Notification	Other:	

ATTACHMENTS:

- Operating Budget Summary by Function (Appendix A)
- Operating Budget Summary by Department (Appendix B)
- Operating Project Summary (Appendix C)
- Capital Project Summary (Appendix D)
- Investment Report (Appendix E)
- Reserve Continuity Schedule (Appendix F)

COUNCIL OPTIONS:

1. Adopt the report as presented and approve the recommended motions.
2. Receive report for information.
3. Provide directions to amend the recommended motions.



FOLLOW-UP ACTIONS:

Internal action required by administration to make any approved financial transaction entries.

APPROVAL(S):

Mike Haugen, Chief Administrative Officer

Approved-

Kinza Barney, Director of Corporate Services

Approved-

