
MEMORANDUM

June 11, 2013

TO: Mayor and Council

FROM: Patrice Impey, General Manager and CFO, Financial Services

CC: Corporate Management Team
Penny Ballem, City Manager
Janice MacKenzie, City Clerk
Mike Magee, Chief of Staff, Mayor's Office
Kevin Quinlan, Director of Policy and Communications, Mayor's Office
Lynda Graves, Administrative Manager, City Manager's Office

SUBJECT: 2013 Operating and Capital Budget - 1st Quarter Review

The purpose of this memo is to provide Council with:

1. A review of the Q1 2013 Operating results and variances from the Q1 Operating Budget, as well as forecasts to 2013 year-end for revenues and expenditures, with identification of any significant variances from the 2013 Operating Budget.
2. A review of the Q1 2013 Capital expenditures by service category, as well as a review of the 2013 forecasted Capital expenditures by service category in comparison with the 2013 Capital Budget.

As the quarter financial report is for information only, it is provided quarterly to Council as a memo and is placed on the City of Vancouver external website at <http://vancouver.ca/fs/budgetServices/index.htm>.

COUNCIL POLICY

Council's standing instructions require that the Director of Finance report on the status of the Operating Budget as at September 30 each year. Since 2010, the Director of Finance has committed to report quarterly on the Operating Budget status, and beginning in 2011, to also report quarterly on the Capital Budget status. Council Policy regarding the Operating Budget, as per the Vancouver Charter, is to ensure a balanced operating budget.

A) Q1 2013 OPERATING BUDGET RESULTS AND FULL YEAR 2013 FORECAST:

This 1st Quarter Review provides Q1 actual results compared to the Q1 budget, as well as the forecasted 2013 year-end revenues and expenditures compared to the annual budget. The year-end forecasts are based on actual results for the first three months of the year and best estimates of revenues and expenditures over the remaining nine months.

Since mid-2010, quarterly reporting frameworks, systems and processes have been developed and have been used to inform and support the year-end forecasts.

It should be noted that there are still some variances to budget on a quarterly basis due to seasonality issues within the budget and some accounting processes that take place on an annual rather than quarterly basis, but the significant work to date is being reflected in increasingly refined quarterly numbers. These variances are adjusted for in the year-end forecasts contained in this report, and continue to be addressed in our budget and reporting process to better align the accuracy of quarterly budget profiling.

A further initiative implemented beginning 2012 is the reporting and review of results on a **Gross Basis** (meaning revenues and recoveries are reported as revenues with corresponding expenses reported as expenses. In the past, the expenditures would be shown net of related revenues/recoveries). Best practices identified in the November 2011 CD Howe Institute report on public sector reporting supports the Gross Basis view of governmental finances to bring more transparency of the City's financial position, and to better align with other entities. The City of Vancouver has adopted these principles and applied this approach going forward.

This memo gives an indication of the financial status of City Departments and Boards looking forward to the end of 2013. In summary, as of Q1, the City is tracking towards a surplus of \$0.7 million. Revenues are expected to be slightly higher than budget due primarily to increased cost recoveries which therefore have little impact on the overall net budget position. Balancing the budget will continue to require careful oversight by the Corporate Management Team across all Departments and Boards.

Summary of Operating Budget Variances

1) Q1 2013 Results and variances to Budget

Table 1 summarizes Q1 results vs. budget. Appendix A provides details by department of Q1 actual results and variance to budget.

Table 1 - 2013 Q1 Operating Budget Review City Summary

<u>\$ millions</u>	<u>Q1 Actuals</u>	<u>Q1 Budget</u>	<u>Q1</u>	<u>Q1</u>
			<u>Variance \$</u>	<u>Variance %</u>
TOTAL REVENUES	283.0	279.2	3.8	1.4%
TOTAL EXPENDITURES	233.6	240.6	7.0	2.9%
NET BUDGET POSITION	49.4	38.6	10.8	

A positive Net Budget Position for the City of Vancouver in this first quarter reflects the timing and seasonality differences between revenues and expenditures, most of which will be adjusted by year-end.

Highlights of the main revenues and expenditure variances to budget in the quarter are provided below.

Revenues are higher than budgeted by 1.4% or \$3.8 million due to:

- Stronger license and trade permit fee income, offset slightly by lower development permit revenues as the scope of projects are trending smaller
- Fire - higher federal grant monies received for Urban Search and Rescue program
- Police - higher recoveries for secondments, over-time and traffic authority
- Higher investment income resulting from higher investment balances
- Unbudgeted Public Art contribution which will be offset by program costs
- Greater Engineering third party street work recoveries which fully recover all costs
- Higher Sewer revenue due primarily to timing as full year projection is expected to be on budget
- Lower Solid Waste revenue due to lower tonnage for garbage and lower revenues from sale of collected recyclables

Expenditures are below budget by 2.9% or \$7.0 million in the quarter due to:

- Seasonality and timing impacts in the quarter for Utilities and Engineering Public Works which are forecasted to be on budget by year-end.
- Higher expenses which are fully recovered as noted above for Police costs, Engineering street work, and Public Art Contribution
- Parks and Support Services are below budget due to timing of filling of vacancies and lower equipment costs

2) 2013 Full Year Forecast and variances to Budget

Table 2 - 2013 Operating Budget Review Summary (Full Year Forecast)

<u>\$ millions</u>	<u>Forecasted</u>		<u>Variance \$</u>	<u>Variance %</u>
	<u>Year-End</u>	<u>Annual Plan</u>		
TOTAL REVENUES	1,152.8	1,148.6	4.2	0.4%
TOTAL EXPENDITURES	1,152.1	1,148.6	(3.4)	(0.3%)
NET BUDGET POSITION	0.7	0.0	0.7	

Appendix B provides additional details by department.

For the full year 2013, the City is forecasting a small surplus primarily due to lower equipment costs and vacancy savings in the first quarter. Increased revenues result from higher cost recoveries which have little impact on the net budget position. The forecast includes an estimate of year end transfers to reserves primarily in the areas of debt, insurance and deferred payroll costs to provide for the City's unfunded liability.

Highlights of the main revenues and expenditure variances to budget in the Full Year Forecast are provided below.

Revenues are forecasted to be higher than budgeted by 0.4% or \$4.2 million due to:

- Fire - higher federal grant monies received for Urban Search and Rescue program
- Police - higher Traffic Authority recoveries and secondment recoveries, higher grants and donations, and higher overtime recoveries
- Higher Engineering third party street work revenues which fully recover all costs
- Utility revenue- Greater commercial tonnage expected for the year; lower sale of collected recyclables; lower NEU revenues coming on-line later than expected
- Lower revenues for Mountain View Cemetery
- Civic theatres - fewer than anticipated shows and lower revenues at the Playhouse

Expenditures are forecasted to be higher than budgeted by 0.3% or \$3.5 million for the year due to:

- Higher expenses which are fully recovered as noted above for Police costs, Engineering street work, and Public Art Contribution
- Lower expenditures for Civic Theatre primarily due to fewer shows at the Playhouse
- Lower expenses for Mountain View Cemetery resulting from less activity

Risk and Opportunities

Development fees are beginning to show a softening in activity but are offset by the continued strength of Trade Permit fees. While other risks exist, such as the impact of weather on revenue and expenses, at this time it is anticipated that the City will adjust to those situations and complete the year within budget.

It is the responsibility of departments to remain within budget by adjusting expenditures as necessary with the exception of expenses that are beyond their control. Departments have an ongoing responsibility to monitor expenditures and adjust spending to remain on budget for the year.

B. Q1 2013 ANNUAL CAPITAL BUDGET RESULTS AND FULL YEAR 2013 FORECAST

While the Operating Budget is built to reflect operating costs for one year only, the annual Capital budget reflects one year of what can be multi-year Capital projects. Therefore, Capital projects are viewed on both an annual budget basis (annual expenditure vs. annual budget), and a total project basis (multi-year project expenditures vs. budget).

On December 11, 2012 Council approved a 2013 Annual Capital Budget in the amount of \$261 million. Since that time approximately \$1 million has been added to the Capital Budget through Council Approvals. This report reflects performance against an approved total 2013 Annual Capital Budget of \$262 million.

A separate report to Council which includes Capital Budget adjustment requests collected during the Q1 review will be presented to Council on May 28 (RTS 9958).

i. 2013 Q1 Capital Expenditures and Year End Forecast vs 2013 Capital Budget

2013 Capital Budget expenditures to the end of Q1 were \$42 million (\$37 million in Q1 2012), representing 16% of the total 2013 Annual Capital Budget of \$262 million. Forecasted total capital expenditures for 2013 are currently projected to be \$254 million, or \$8 million (3%) less than budget.

Table 3 provides a summary of the Quarter 1 Capital expenditures as well as forecasted annual expenditures by service category compared to the 2013 Annual Capital Budget.

Table 3 - Q1 2013 Annual Capital Budget Results by Service Category (\$000's)

Service Category 1	Service Category 2	2013		2013	Expected
		Budget	Q1 Actual	Forecast	Variance
01. Community Facilities	A. Childcare	5,714	358	5,504	210
	B. Social Facilities	2,872	205	2,744	128
	C. Cultural Facilities	5,094	332	4,741	353
	D. Entertainment and Exhibition	4,295	143	4,921	(627)
	E. Libraries and Archives	4,658	36	4,460	197
	F. Recreation Facilities	4,687	473	4,215	471
01. Community Facilities Total		27,319	1,546	26,585	734
02. Parks and Open Spaces	A. Parks and Open Spaces	15,269	1,131	11,628	3,640
	B. Seawall and Recreation Trails	-	87	87	(87)
	C. Street Trees	950	266	876	74
	D. Public Art	1,006	90	1,032	(26)
02. Parks and Open Spaces Total		17,224	1,574	13,624	3,601
03. Housing	A. Non-Market Rental Housing	9,663	506	9,536	127
	B. Market Rental Housing	235	-	235	-
03. Housing Total		9,898	506	9,771	127
04. Public Safety	A. Police	2,018	754	2,167	(149)
	B. Fire	3,343	159	2,179	1,164
	C. Animal Control	133	2	132	0
04. Public Safety Total		5,494	916	4,479	1,014
05. Transportation	A. Walking and Cycling	11,131	3,169	11,792	(661)
	B. Transit	1,047	4	901	146
	C. Major Roads	51,354	7,432	50,269	1,085
	D. Local Roads	3,964	1,269	2,992	972
	E. Parking	2,417	155	3,162	(745)
05. Transportation Total		69,913	12,029	69,117	796
06. Utilities and Public Works	A. Waterworks	17,000	3,711	17,114	(114)
	B. Sewers	49,131	13,268	47,968	1,162
	C. Solid Waste	14,155	91	13,634	521
	D. Neighbourhood Energy	653	54	654	(2)
06. Utilities and Public Works Total		80,939	17,125	79,370	1,568
07. Civic Infrastructure	A. Administrative Facilities	10,898	590	10,196	702
	B. Service Yards	1,115	3	1,118	(3)
	C. Vehicles and Equipment	15,471	5,140	15,467	3
	D. Information Technology	21,080	2,550	21,080	(0)
07. Civic Infrastructure Total		48,564	8,283	47,862	702
08. City-Wide	B. Inflation Contingency	-	-	-	-
	C. City-Wide Overhead	3,000	366	3,000	-
08. City-Wide Total		3,000	366	3,000	-
Grand Total		262,350	42,346	253,809	8,541

Explanations for projected variances by service category are provided below:

01. Community Facilities

\$734,000 variance

Overall, Community Facilities is projecting a positive variance of approximately \$734,000.

This variance is made up of a number of positive variances within the childcare, social facilities, cultural facilities, libraries and archives, and recreation facilities categories, offset by higher than anticipated expenditures within the entertainment and exhibition category.

This higher than anticipated expenditure relates to a strategic opportunity to advance the Hastings Park Livestock Building Roof replacement ahead of schedule by combining phases of the project. This will also allow for the work to be complete before the PNE starts.

02. Parks and Open Spaces

\$3.6 million variance

Overall, Parks and Open spaces is projecting a positive variance of \$3.6 million.

This variance is primarily due to a delay in expenditures for the Parks Sport Fieldhouse's program. It is anticipated that the project scope and schedule will be defined in 2013, with actual expenditures therefore being pushed into 2014. Also contributing to the variance is the Trillium Park project, which is on hold pending re-scoping related to transportation right of ways..

03. Housing

\$127,000 variance

Overall, housing has a 2013 Capital Budget in the amount of 9.9 million with current anticipated expenditures for the year of \$9.8 million. There are no notable forecast variances at this time.

04. Public Safety

\$1 million variance

Overall, Public Safety is projecting a positive variance of \$1 million.

This variance is primarily related to the Fire hall Number 5 project which is currently on hold pending refinement of design scope and rezoning to include the option of adding social housing and rezoning.

05. Transportation

\$796,000 variance

Overall, Transportation is projecting a positive variance of \$796,000.

This variance is made up of a number of projected positive spend variances within the Transit, Major Roads, and Local Roads categories. The positive variance within the Major Roads category relates primarily to a surplus on the Granville Bridge Bearing Replacement program due to competitive bid pricing. This positive spend variance is offset by negative spend variances within the Walking/Cycling and Parking categories, as lower than expected activity in the last quarter of 2012 pushed spending in 2013.

06. Utilities and Public Works**\$1.6 million variance**

Overall, a positive variance of \$1.6 million within Utilities and Public Works is being projected at the end of quarter 1.

The slight negative spend variance in waterworks is being caused by above budget spending in the service installation programs which are 100% recovered by user fees, and offset by an underspend in the Transmission Main program which has been delayed due to longer than anticipated design due to added complexity on the Pender Project.

Sewers is projecting a positive spend variance which is primarily due to a delay in Pump station construction as a result of design changes, and is offset by a negative spend variance in the sewer service installation programs which are 100% recovered by user fees.

07. Civic Infrastructure**\$702,000 variance**

Overall, Civic Infrastructure is projecting a positive variance of \$702,000. This projected variance is attributed to the administrative facilities category and primarily to the Facility Condition Audit project which was re-scoped and therefore slightly delayed to align with the Corporate Asset Management Strategy and to include consideration of additional elements including seismic, environmental, and green program elements.

ii. Multi Year Capital Projected Expenditures versus Budget

The review of the multi-year capital program/projects identifies specific projects and indicates which projects are projected to complete on, over, or under budget.

As of March 31 2013, open Capital programs/projects have budgets totaling \$1.10 billion with an overall projected positive variance of approximately \$6 million (or 1%) excluding a small number programs or projects which did not receive a 2013 budget in error. Prior to 2012, when the Capital Budget process was redesigned to be inclusive of all projects, some projects received funding outside of the capital budget and were not reported. In 2013, \$32 million of forecast costs which relate to Combined Sewer and Water Connection programs and the Vehicle and Equipment Replacement program were not fully captured in the 2013 budget. It is anticipated that the majority of these programs will be closed in 2013.

CONCLUSION

OPERATING BUDGET:

Results for Q1 show a \$10.8 million favourable variance to budget. The variance is primarily a reflection of timing and seasonality differences between budgeted revenues and expenditures and actuals incurred to date.

The Full Year Forecast shows a small surplus of \$0.7 million, including estimated year-end adjustments to reserves, primarily in the area of debt, insurance and deferred payroll costs to provide for the City's unfunded liability.

The forecasted year-end position will change given that the estimates are based only on three months of actual performance and that unanticipated items between now and year-end will impact the City's final financial position. For this reason, Departments and Boards will continue to monitor their budgets carefully and to adjust expenditures accordingly to ensure a balanced year-end position.

CAPITAL BUDGET:

The City of Vancouver incurred \$42 million in capital expenditures for the first quarter of 2013 (16% of the 2013 Capital Budget) and is projecting to spend a total of \$254 million by the end of 2013, representing a positive spend variance of \$8 million against a budget of \$262 million.

If you have any questions in regards to the above please don't hesitate to contact me.

Best regards,



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2013 Operating Budget
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Appendix A

2013 Operating Budget Q1 Plan to Actual Review Summary

\$ millions	Q1 Actuals	Q1 Plan	Q1 Variance \$	Q1 Variance %
REVENUES				
Taxation Revenue	159.2	157.7	1.5	0.9%
General Revenue	53.1	53.1	(0.1)	(0.1%)
Utilities *	42.8	43.8	(1.0)	(2.2%)
Police	4.4	3.2	1.3	40.7%
Parks	8.0	8.2	(0.2)	(2.1%)
Fire	2.3	1.9	0.3	17.8%
Engineering (PW)	3.7	2.5	1.2	50.3%
Community Services	3.1	2.6	0.4	16.4%
Planning & Development	0.0	0.0	(0.0)	(32.9%)
Library	2.1	2.0	0.1	3.1%
Grants	0.0	0.0	0.0	-
Civic Theatres	1.5	1.9	(0.4)	(21.6%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	0.3	0.3	(0.0)	(0.1%)
Support Services	0.4	0.3	0.0	9.2%
Contingency & General Govt	2.2	1.6	0.6	35.3%
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	283.0	279.2	3.8	1.4%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	36.3	39.4	3.1	7.8%
Police	55.7	56.1	0.5	0.8%
Parks	24.2	24.9	0.6	2.5%
Fire	24.3	24.3	(0.0)	(0.1%)
Engineering (PW)	20.1	20.8	0.7	3.6%
Community Services	9.8	9.9	0.1	1.0%
Planning & Development	4.6	4.8	0.2	4.6%
Library	12.2	12.1	(0.1)	(0.5%)
Grants	4.7	4.8	0.1	1.1%
Civic Theatres	1.1	1.4	0.3	19.8%
Mayor	0.2	0.2	(0.0)	(1.0%)
Council	0.3	0.3	0.0	11.8%
Britannia	1.1	1.1	0.0	4.0%
Support Services	26.1	27.4	1.4	4.9%
Contingency & General Govt	8.5	8.6	0.1	1.4%
Debt & Capital	4.5	4.5	(0.0)	(0.0%)
TOTAL EXPENDITURES	233.6	240.6	7.0	2.9%
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-
REVISED ESTIMATED EXPENDITURES	233.6	240.6	7.0	2.9%
NET BUDGET POSITION	49.4	38.6	10.8	

City of Vancouver
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Appendix B

2013 Operating Budget - Full Year Forecast

\$ millions	Forecasted Year-end	Annual Plan	Variance \$	Variance %
REVENUES				
Taxation Revenue	657.4	657.4	0.0	0.0%
General Revenue	159.5	159.5	0.0	0.0%
Utilities *	217.7	217.8	(0.1)	(0.0%)
Police	17.2	13.8	3.4	24.9%
Parks	48.7	48.7	0.0	0.0%
Fire	7.8	7.5	0.3	3.8%
Engineering (PW)	11.4	10.0	1.4	14.0%
Community Services	10.4	10.6	(0.1)	(1.2%)
Planning & Development	0.2	0.2	(0.0)	(0.7%)
Library	4.5	4.4	0.1	1.4%
Grants	0.0	0.0	0.0	-
Civic Theatres	7.4	8.0	(0.5)	(6.6%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	1.0	1.0	0.0	0.0%
Support Services	1.5	1.6	(0.1)	(7.1%)
Contingency & General Govt	8.1	8.2	(0.1)	(1.7%)
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	1,152.8	1,148.6	4.2	0.4%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	247.6	246.4	(1.1)	(0.5%)
Police	236.8	233.4	(3.4)	(1.4%)
Parks	106.3	106.3	0.0	0.0%
Fire	97.4	97.4	(0.1)	(0.1%)
Engineering (PW)	77.4	76.0	(1.4)	(1.8%)
Community Services	39.5	39.5	0.1	0.2%
Planning & Development	19.6	19.4	(0.3)	(1.5%)
Library	43.6	43.5	(0.0)	(0.1%)
Grants	16.3	16.5	0.2	1.4%
Civic Theatres	5.6	5.8	0.3	4.5%
Mayor	1.0	1.0	0.0	0.0%
Council	1.2	1.3	0.1	7.3%
Britannia	4.5	4.5	0.0	0.0%
Support Services	106.4	106.7	0.3	0.2%
Contingency & General Govt	56.9	57.0	0.1	0.2%
Debt & Capital	90.2	90.5	0.3	0.3%
TOTAL EXPENDITURES	1,150.2	1,145.3	(4.9)	(0.4%)
Transfer to/from Utilities Reserve*	1.9	3.4	1.5	43.4%
REVISED ESTIMATED EXPENDITURES	1,152.1	1,148.6	(3.4)	(0.3%)
NET BUDGET POSITION	0.7	0.0	0.7	

* Other than Sewer expenditures covered by increased revenues, year-end surplus or deficit in the utilities are transferred to reserve.

It should be noted that there are still a number of variances to budget on a quarterly basis due to seasonality issues within the budget and some accounting processes that take place on an annual rather than quarterly basis. Significant work on moving from annual to quarterly reporting processes is being reflected in increasingly refined quarterly numbers. These variances are adjusted for in the year-end forecasts contained in this report, and continue to be addressed in our budget process to better align the quarterly budgets to expected quarterly results.