



OFFICE OF THE GENERAL MANAGER
FINANCIAL SERVICES GROUP

MEMORANDUM

December 3, 2013

TO: Mayor and Council

FROM: Patrice Impey, General Manager, Financial Services

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

SUBJECT: 2013 Operating and Capital Budget - 3rd Quarter Review

The purpose of this memo is to provide Council with:

1. A review of the Q3 2013 Operating results and variances from the Q3 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 Q3 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) Q3 2013 OPERATING BUDGET RESULTS AND FULL YEAR 2013 FORECAST:

This 3rd Quarter Review provides Q3 actual results compared to the Q3 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 nine months of the year and best estimates of revenues and expenditures over the remaining three 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 Q3, the City is tracking towards a surplus of \$5.8 million. Revenues are expected to be slightly higher than budget due primarily to continued demand for permits, generating revenues exceeding budget. 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) Q3 2013 Results and variances to Budget

Table 1 summarizes Q3 results vs. budget. Appendix A provides details by department of Q3 actual results and variance to budget.

Table 1 - 2013 Q3 (to September 30, 2013) Operating Budget Review City Summary

<u>\$ millions</u>	<u>Q3 Actuals</u>	<u>Q3 Plan</u>	<u>Q3 Variance \$</u>	<u>Q3 Variance %</u>
TOTAL REVENUES	303.6	298.1	5.5	1.8%
TOTAL EXPENDITURES	282.9	285.8	2.8	1.0%
NET BUDGET POSITION	20.6	12.3	8.3	

A positive Net Budget Position for the City of Vancouver in this third quarter reflects primarily 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 \$5.5 million (1.8%) due to:

- Higher revenues from:
 - License and trade permit fee income from increased demand, and
 - Investment income resulting from higher investment balances.
- Timing and seasonality impacts from:
 - Earlier receipt of Provincial sharing revenue than budgeted,
 - Property Taxation Revenue Supplementary rolls and adjustments higher than anticipated in the quarter,
 - Offset by lower Utilities revenue for water and sewer due to timing of meter reading and billing.
- Revenues which are offset by a corresponding increase in expenditures:
 - Police - higher recoveries for secondments, over-time and traffic authority, and
 - Higher parking, concession, golf and recreation services (i.e. aquatics, arenas and outdoor sports) revenues as a result of good weather this quarter.

Expenditures are lower than budgeted by \$2.8 million (1.0%) in the quarter due to:

- Lower expenses from:
 - Lower than budgeted Water purchase costs for the quarter due to lower consumption
- Timing and seasonality impacts from:
 - Emergency communications costs not recorded in the quarter for Police and Fire,
 - Higher than budgeted Fire Department fringe benefits, forecasted to be back on budget by year-end, and
 - Higher than budgeted Police salaries in Q3 offsetting Q2 which was below budget
- Expenditures associated with higher revenues:
 - Higher expenditures for Police costs which are fully recovered, and
 - Higher golf and recreation services expenditures associated with higher revenues.

2) 2013 Full Year Forecast and variances to Budget

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

\$ millions	<u>Forecasted</u> <u>Year-End</u>	<u>Annual Plan</u>	<u>Variance \$</u>	<u>Variance %</u>
TOTAL REVENUES	1,154.8	1,148.8	6.0	0.5%
TOTAL EXPENDITURES	1,149.0	1,148.8	(0.2)	(0.0%)
NET BUDGET POSITION	5.8	0.0	5.8	

Appendix B provides additional details by department

For the full year 2013, the City is forecasting a surplus primarily due to delayed building maintenance, lower equipment costs and employee vacancy savings. Increased revenues which are related to cost recoveries will 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 revenue and expenditure variances to budget in the Full Year Forecast are provided below.

Revenues are forecasted to be higher than budgeted by \$6.0 million (0.5%) due to:

- Change in revenues:
 - Fire - higher federal grant monies received for Urban Search and Rescue program related to prior year commitments,
 - Police - higher grants and donations
 - Park Board - increase in parking and lease revenues, and
 - Utility revenue- higher Sewer utility metered revenue offset by lower Water utility revenue due to lower consumptions and lower NEU revenues related to customers in new developments coming on-line later than projected .
- Revenues offset by a corresponding increase or decrease in expenditures:
 - Police - higher Traffic Authority recoveries, secondment recoveries and higher overtime recoveries,
 - Higher Engineering third-party recoverable street work revenues,
 - Community Services - increase cost recoveries primarily in Provincial supported programs,
 - Unbudgeted Public Art contribution,
 - Park Board - increase in golf and recreation services (i.e. aquatics, arenas and outdoor sports) revenues as a result of good weather this year,
 - Lower revenues for Mountain View Cemetery,
 - Civic theatres - reduction in the number of shows and lower revenues at the Playhouse, and
 - Lower Water Utility revenue due to reduced water consumption to date.

Expenditures are forecasted to be higher than budgeted by \$0.2 million (0.0%) for the year due to:

- Higher expenditures:
 - Police - higher than budgeted fringe benefit costs due to higher benefit rates,
 - Parks - higher utility costs, employee benefit costs, major maintenance projects and retiree payments, and
 - Utilities - increase in Delta sewer fees.
- Expenditures offset by a corresponding increase or decrease in revenues:
 - As identified in the above revenue explanations.

Risk and Opportunities

Development revenues show a favorable trend to budget providing an opportunity for stronger than anticipated revenues for the remainder of the year. Costs have generally been in line with the budget but risks still exist. 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. Q3 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, and a total project basis.

On December 11, 2012 Council approved a 2013 Annual Capital Budget in the amount of \$261 million. Since that time approximately \$27 million has been added to the Capital Budget through Council Approvals. This report reflects performance against an approved total 2013 Annual Capital Budget of \$288 million.

A separate report to Council for Capital Budget adjustment requests identified during the Q3 review will be presented to Council on December 3, 2013 (RTS 9956).

i. 2013 Q3 Capital Expenditures and Year End Forecast vs 2013 Capital Budget

2013 Capital Budget expenditures to the end of Q3 were \$181 million (\$120 million in Q3 2012), representing 63% of the total 2013 Annual Capital Budget of \$288 million. Forecasted total capital expenditures for 2013 are currently projected to be \$272 million, \$16 million (6%) less than budget.

Table 3 provides a summary of the Q3 Capital expenditures as well as forecasted annual expenditures by service category compared to the 2013 Annual Capital Budget.

Table 3 Q3 2013 Annual Capital Budget Results by Service Category (\$000's)

Service Category 1	Service Category 2	2013 Budget	Q3 YTD Actual	2013 Forecast	Expected Variance
01. Community Facilities	A. Childcare	5,477	3,540	5,420	57
	B. Social Facilities	2,278	551	1,851	427
	C. Cultural Facilities	5,174	1,928	3,789	1,385
	D. Entertainment and Exhibition	4,295	5,529	6,029	(1,734)
	E. Libraries and Archives	3,308	392	1,445	1,863
	F. Recreation Facilities	17,181	14,600	17,005	176
01. Community Facilities Total		37,712	26,540	35,538	2,174
02. Parks and Open Spaces	A. Parks and Open Spaces	14,064	7,218	11,689	2,375
	B. Seawall and Recreation Trails	-	87	87	(87)
	C. Street Trees	950	380	932	18
	D. Public Art	1,006	314	972	34
02. Parks and Open Spaces Total		16,019	7,999	13,679	2,340
03. Housing	A. Non-Market Rental Housing	16,070	4,619	13,171	2,899
	B. Market Rental Housing	905	42	425	480
03. Housing Total		16,975	4,661	13,596	3,379
04. Public Safety	A. Police	2,118	1,013	2,088	30
	B. Fire	2,180	549	1,557	623
	C. Animal Control	133	9	132	0
04. Public Safety Total		4,430	1,571	3,778	652
05. Transportation	A. Walking and Cycling	12,586	9,985	13,371	(784)
	B. Transit	750	238	403	347
	C. Major Roads	50,644	33,377	48,800	1,844
	D. Local Roads	4,469	3,079	4,174	295
	E. Parking	2,417	916	2,418	(1)
05. Transportation Total		70,866	47,595	69,165	1,701
06. Utilities and Public Work	A. Waterworks	16,500	12,298	15,857	643
	B. Sewers	46,811	40,390	46,786	24
	C. Solid Waste	23,715	9,904	22,240	1,475
	D. Neighbourhood Energy	853	634	834	19
06. Utilities and Public Works Total		87,879	63,227	85,717	2,161
07. Civic Infrastructure	A. Administrative Facilities	9,299	4,690	8,575	724
	B. Service Yards	1,115	120	536	579
	C. Vehicles and Equipment	19,046	16,076	19,026	21
	D. Information Technology	21,219	7,336	18,987	2,232
07. Civic Infrastructure Total		50,679	28,222	47,124	3,556
08. City-Wide	C. City-Wide Overhead	3,000	1,124	3,307	(307)
08. City-Wide Total		3,000	1,124	3,307	(307)
Grand Total		287,561	180,938	271,905	15,656

Explanations for projected variances by service category are provided below:

01. Community Facilities	\$2.2m positive variance
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As of the end of the Q3 2013, Community Facilities is forecasted to be lower than budget by approximately \$2.2 million. This is primarily due to delays in the construction of the Strathcona/Downtown East Side Library offset partially by a strategic opportunity to advance the Hastings Park Livestock Building Roof replacement ahead of schedule by combining phases of the project.

The Strathcona/Downtown East Side Library is delayed as a result of increased time to obtain rezoning approval, which was subject to the submission, review and approval of revised architectural drawings and development plan. The development plan is currently under review by the City and expected to be approved in 2013.

02. Parks and Open Spaces	\$2.3m positive variance
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As of the end of the Q3 2013, Parks & Open Spaces is forecasted to be lower than budget by approximately \$2.3 million.

This is primarily due to the Hastings Park Greening project, where expenditures in 2013 are forecast to be less than originally anticipated. The total price of the bids received for this project exceeded the project budget and as such a thorough review was completed to identify cost savings in order to proceed with full scope of work. This review caused a delay in initiating the construction of the project.

03. Housing	\$3.4m positive variance
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As of the end of the Q3 2013, Housing is forecasted to be lower than budget by approximately \$3.4 million, which is primarily attributed to delays in the Taylor Manor project due to delays in abatement and foundation work as a result of a longer than anticipated procurement and site condition assessment. The final phase of construction is expected to begin in early 2014.

04. Public Safety	\$0.7m positive variance
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As of the end of the Q3 2013, Public Safety capital expenditures are forecasted to be lower than budget by approximately \$0.7 million. This is primarily due to Fire Hall Number 5 reconstruction project, and the Fire Truck Shelter which is on hold pending the results of the viaducts study.

05. Transportation	\$1.7m positive variance
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As of the end of the Q3 2013, Transportation is forecasted to be lower than budget by approximately \$1.7 million.

This is made up of Transit, Major Roads and Local Roads categories which is \$2.5 million lower than budget, offset partially by the Walking & Cycling, and Parking categories, which are forecasted to be \$0.8 million above budget.

This is primarily due to lower Year to date spending on the Granville Bridge Bearing Replacement program which is still planned for completion by the end of 2013 and the Burrard Bridge program which is forecasted to be under budget for 2013 as extended tendering processes to reduce environmental risk and secure more favorable pricing have shifted planned spending from 2013 to 2014.

This is partially offset by the Burrard Bridge South End improvements project which is forecasted to be above budget because construction started approximately one month early leading to higher than anticipated expenditures in 2013.

06. Utilities and Public Works	\$2.2m positive variance
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As of the end of the Q3 2013, Utilities & Public Works is forecasted to be lower than budget by approximately \$2.2 million.

This relates primarily to delays in the landfill entrance reconstruction, postponement of transfer station improvements until the full impacts of the organics and recycling program changes are understood, and deferring the implementation of solar compactors due to a broad range review of solutions being explored.

07. Civic Infrastructure	\$3.6m positive variance
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As of the end of the Q3 2013, Civic Infrastructure is forecasted to be lower than budget by approximately \$3.6 million.

The majority of this variance is within the Information Technology category which consists of several smaller dollar variances across a number of projects including the Voting System project and the Safari Upgrade Project which were delayed and will commence in 2014. Several Information Technology initiatives were delayed due to longer than expected project setup.

08. City Wide	\$0.3m negative variance
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As of the end of Q3 2013, costs are forecasted to be \$0.3 million higher than budget. This is primarily related to positions added to support capital projects which were not identified when the 2012-2014 Capital Plan was created.

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 September 30 2013, open Capital programs/projects have budgets totaling \$1.01 billion with an overall forecasted positive variance of approximately \$11 million (less than 1%) excluding a small number programs or projects which did not receive a 2013 budget in error. 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 included in the 2013 budget. \$11.6 million of costs which relate to Combined Sewer and Water Connection programs 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 Q3 show an \$8.3 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. Higher than budget revenue for permit fees, investment income and costs recoveries explain most of the remaining variance.

The Full Year Forecast shows an anticipated surplus of \$5.8 million. The forecast is based on estimates and trends. Unanticipated items between now and actual results may differ from the forecast. 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 \$181 million in capital expenditures year to date through the third quarter of 2013 (63% of the 2013 Capital Budget) and is projected to spend a total of \$272 million by the end of 2013, representing a positive projected spend variance of \$16 million against a budget of \$288 million.

Best regards,
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**City of Vancouver
2013 Operating Budget
3rd Quarter Review**

Appendix A

2013 Operating Budget Q3 Plan to Actual Review Summary

\$ millions	Q3 Actuals	Q3 Plan	Q3 Variance \$	Q3 Variance %
REVENUES				
Taxation Revenue	174.9	172.6	2.2	1.3%
General Revenue	46.0	40.2	5.8	14.5%
Utilities *	47.4	54.0	(6.6)	(12.2%)
Police	4.3	3.2	1.0	32.4%
Parks	18.6	17.2	1.4	7.9%
Fire	2.2	1.8	0.4	19.3%
Engineering (PW)	3.1	2.1	0.9	43.9%
Community Services	3.1	2.6	0.5	18.5%
Planning & Development	0.2	0.0	0.2	489.3%
Library	0.8	0.9	(0.2)	(16.7%)
Grants	0.0	0.0	0.0	-
Civic Theatres	1.2	1.6	(0.4)	(22.9%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	0.2	0.3	(0.0)	(17.5%)
Support Services	0.5	0.4	0.1	27.8%
Contingency & General Govt	1.1	1.1	0.0	4.3%
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	303.6	298.1	5.5	1.8%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	90.5	91.5	1.0	1.1%
Police	55.7	53.0	(2.7)	(5.2%)
Parks	29.9	29.0	(0.9)	(3.2%)
Fire	23.9	24.1	0.3	1.1%
Engineering (PW)	18.6	18.8	0.2	1.2%
Community Services	10.2	9.9	(0.4)	(3.6%)
Planning & Development	4.7	4.7	0.0	0.9%
Library	10.1	10.6	0.5	4.5%
Grants	4.0	4.4	0.4	8.9%
Civic Theatres	1.1	1.3	0.2	15.8%
Mayor	0.2	0.2	0.0	9.2%
Council	0.3	0.3	0.0	10.8%
Britannia	1.1	1.1	0.1	5.9%
Support Services	27.2	27.9	0.7	2.6%
Real Estate & Facilities Management	9.5	9.1	(0.3)	(3.8%)
Financial Services	9.0	9.3	0.4	3.9%
Human Resources	3.6	3.6	(0.1)	(1.5%)
City Manager	2.9	3.5	0.6	17.7%
Legal	1.4	1.5	0.1	8.6%
City Clerks	0.8	0.8	0.0	1.9%
Contingency & General Govt	5.0	8.8	3.8	43.5%
Debt & Capital	0.5	0.1	(0.4)	(396.6%)
TOTAL EXPENDITURES	282.9	285.8	2.8	1.0%
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-
REVISED ESTIMATED EXPENDITURES	282.9	285.8	2.8	1.0%
NET BUDGET POSITION	20.6	12.3	8.3	

**City of Vancouver
2013 Operating Budget
3rd Quarter Review**

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 *	215.8	217.8	(2.0)	(0.9%)
Police	17.8	13.8	4.0	28.7%
Parks	50.8	48.7	2.1	4.3%
Fire	8.0	7.5	0.5	6.2%
Engineering (PW)	10.8	10.0	0.8	7.7%
Community Services	11.5	10.6	0.9	8.7%
Planning & Development	0.5	0.3	0.2	74.2%
Library	4.4	4.5	(0.0)	(0.6%)
Grants	0.0	0.0	0.0	-
Civic Theatres	7.5	8.0	(0.5)	(5.8%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	1.0	1.0	(0.1)	(5.4%)
Support Services	1.6	1.6	(0.0)	(0.6%)
Contingency & General Govt	8.3	8.2	0.1	1.3%
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	1,154.8	1,148.8	6.0	0.5%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	245.2	246.8	1.6	0.6%
Police	237.3	233.6	(3.7)	(1.6%)
Parks	108.5	106.4	(2.1)	(2.0%)
Fire	97.7	97.5	(0.2)	(0.2%)
Engineering (PW)	75.9	76.4	0.4	0.6%
Community Services	40.3	39.9	(0.4)	(1.0%)
Planning & Development	19.1	18.9	(0.2)	(1.3%)
Library	43.1	43.6	0.5	1.2%
Grants	16.6	16.9	0.3	1.6%
Civic Theatres	5.6	5.8	0.2	3.6%
Mayor	1.0	1.0	(0.0)	(0.0%)
Council	1.2	1.3	0.1	9.0%
Britannia	4.4	4.5	0.0	0.9%
Support Services	108.0	109.0	0.9	0.9%
Contingency & General Govt	57.7	57.7	0.1	0.1%
Debt & Capital	85.9	86.2	0.3	0.3%
TOTAL EXPENDITURES	1,147.6	1,145.4	(2.2)	(0.2%)
Transfer to/from Utilities Reserve*	1.4	3.4	2.0	58.6%
REVISED ESTIMATED EXPENDITURES	1,149.0	1,148.8	(0.2)	(0.0%)
NET BUDGET POSITION	5.8	0.0	5.8	

* 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.