

For Information

DATE: July 31, 2013

REPORT TITLE: **ANNUAL BUDGET SURPLUS/DEFICIT ANALYSIS**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide Council with an historical analysis of the surpluses and deficits generated from the operations of tax supported Regionally Controlled Programs as well as the police services.

REPORT HIGHLIGHTS

- On May 23, 2013 Council directed staff to develop a report on the recent history of Regional surpluses and deficits.
- Peel's budget accuracy target is plus or minus three per cent variance.
- Revenue volatility accounts for 89 per cent of annual budget variances over the past four years.
- Excluding revenue volatility, recent surpluses and deficits for Regionally Controlled Programs have been within the target variance established for annual operations.
- Revenue assumptions are reviewed and updated with each budget cycle based on the best available information.
- Peel Regional Police has been within the target variance.

DISCUSSION**1. Background**

On May 23, 2013 Council requested that a report be provided with details of financial operating performance over recent years. The analysis was to include information on police operations as well as Regionally Controlled Tax Supported Programs. The analysis was also meant to highlight any unbudgeted revenue that influenced the annual surpluses.

2. Findings

On April 11, 2013 Council approved a Long Term Financial Planning Strategy. As part of this strategy, several metrics were introduced as part of a Financial Condition Scorecard to monitor how the Region is performing relative to the principles that guide the strategy. In keeping with this philosophy of measuring financial performance, a target of acceptable annual operating variance has been developed based on research of best practices. Since 2011 Peel has utilized and measured budget variances against a target of plus or minus three per cent.

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This target is to be met while managing risks that have been identified through the budget process. These risks include:

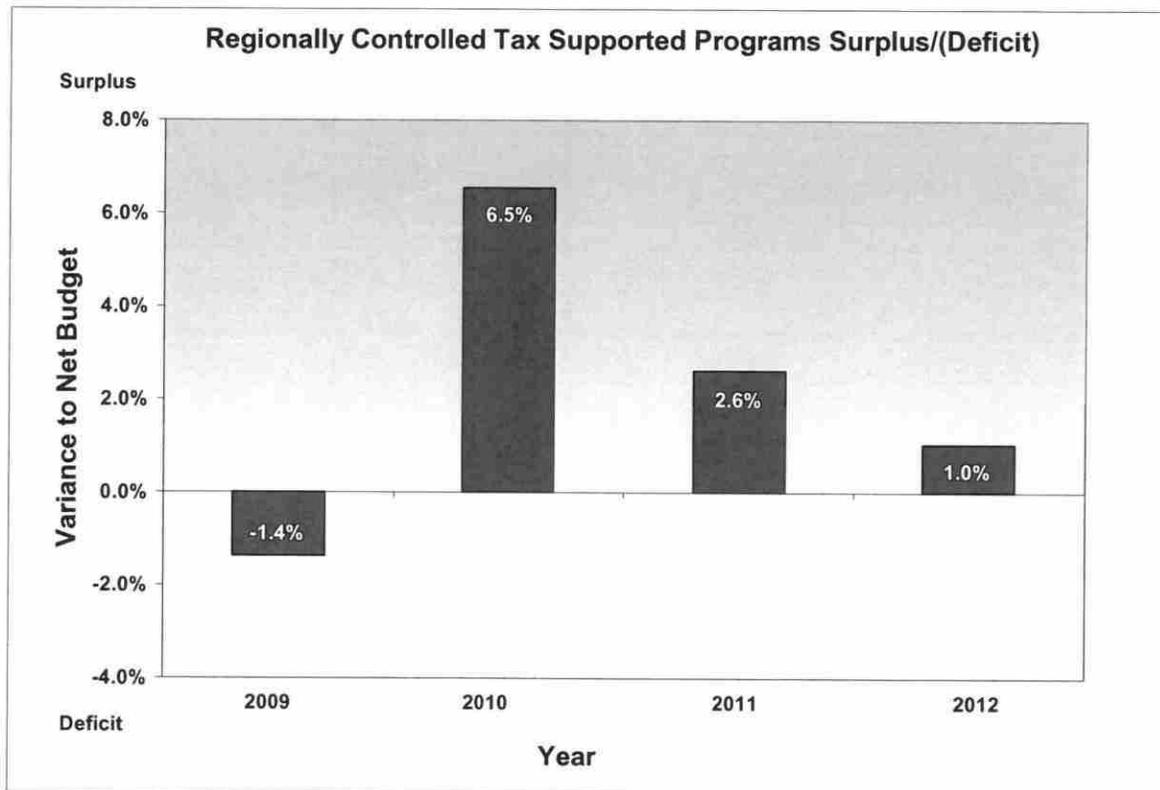
- Economic and Market Volatility
- Weather
- Regulations and Legislation
- Grants and Subsidies
- Property Taxes
- Labour Costs
- Uncertain Liabilities

Despite these inherent destabilizing factors, the Region has demonstrated an ability to adapt and manage its operations within the target variance. The tactics used to achieve this include regular monitoring and the prudent use of working fund reserves. The following details demonstrate this.

a) Regionally Controlled Tax Supported Programs Surplus Analysis

a. Surplus History

The following graph shows the variance to net budget for operations of Regionally Controlled Programs from 2009 to 2012 expressed as a percentage.



Each year had its own unique set of challenges and developments that influenced the final deficit or surplus. The following is a brief description of the major variance drivers for each of these years.

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In 2009, the Regionally Controlled Tax Supported Programs ended the year with a deficit of \$6.2 million, a variance of 1.4 per cent to the net budget. The economic downturn played a significant role in the year-end deficit.

Ontario Works, Waste Management and Supplementary Taxes were all heavily impacted by the recession and ended the year with a deficit. In Ontario Works, the economic downturn resulted in an increased average monthly caseload of 12,821 versus the budget of 10,400, representing a 23.3 per cent increase. In Waste Management, the commodity revenue was lower as a result of lower commodity prices for recycled materials due to the recession. Supplementary Taxes also experienced a decline. The impacts of the recession were partially mitigated by the \$2.2 million unbudgeted Public Health one-time funding related to H1N1.

Table 1: 2009 Unbudgeted Revenue

Description of Revenue	Unbudgeted Revenue (in millions)
Provincial Funding	\$2.2
Supplementary Taxes	(\$1.4)
Commodity Revenue	(\$7.8)
Total Impact	(\$7.0)

2010 – Surplus of \$30.7 million, a variance of 6.5 per cent to the net budget

2010 was a year when the Region received a significant amount of unbudgeted revenue. The Regionally Controlled Tax Supported Programs completed the year with a surplus of \$30.7 million, representing a variance of 6.5 per cent to the net budget. The surplus was primarily driven by unanticipated revenue of \$28.1 million which accounts for 92 per cent of the total Region Controlled Tax Supported surplus. The remaining \$2.6 million surplus related to changes in operational costs and budget assumptions.

The 2010 budgeted revenue of \$28.1 million included the following:

- Additional \$18.1 million provincial funding: \$11.5 million related to a change in funding formula for Ontario Works Administration costs. The funds were received in 2011 retroactive to 2010. The remaining \$6.6 million related to additional funding in Paramedic Services (\$1.9 million), Early Learning and Child Care (\$2.3 million), Community Grants program (\$1.4 million) and Public Health (\$1.0 million).
- \$7.5 million higher than budgeted Supplementary Taxes that was attributable to an improving economy and process improvements at Municipal Property Assessment Corporation (MPAC).
- Additional \$2.5 million Waste Diversion Ontario (WDO) grant.

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Table 2: 2010 Unbudgeted Revenue

Description of Revenue	Unbudgeted Revenue (in millions)
Provincial Funding	\$18.1
Supplementary Taxes	\$7.5
Waste Diversion Ontario Grant	\$2.5
Revenue Variance	\$28.1

2011 – Surplus of \$12.5 million, a variance of 2.6 per cent to the net budget

In 2011 the Regionally Controlled Tax Supported Programs generated a surplus of \$12.5 million, a variance of 2.6 per cent to the net budget. The surplus was largely driven by higher than budgeted Supplementary Taxes of \$8.0 million which represents 64 per cent of the total Regionally Controlled Tax Supported surplus (refer to table 3 below). Changes in operational costs and budget assumptions including lower mortgage rates and number of winter events contributed to the remaining surplus of \$4.5 million.

Table 3: 2011 Unbudgeted Revenue

Description of Revenue	Unbudgeted Revenue (in millions)
Supplementary Taxes	\$8.0
Revenue Variance	\$8.0

2012 – Surplus of \$5.0 million, a variance of 1.0 per cent to the net budget

The Regionally Controlled Tax Supported Programs ended 2012 with a surplus of \$5.0 million, a variance of 1.0 per cent to the net budget. The surplus is largely driven by \$5.4 million in unanticipated revenue as illustrated in Table 4 below.

Table 4: 2012 Unbudgeted Revenue

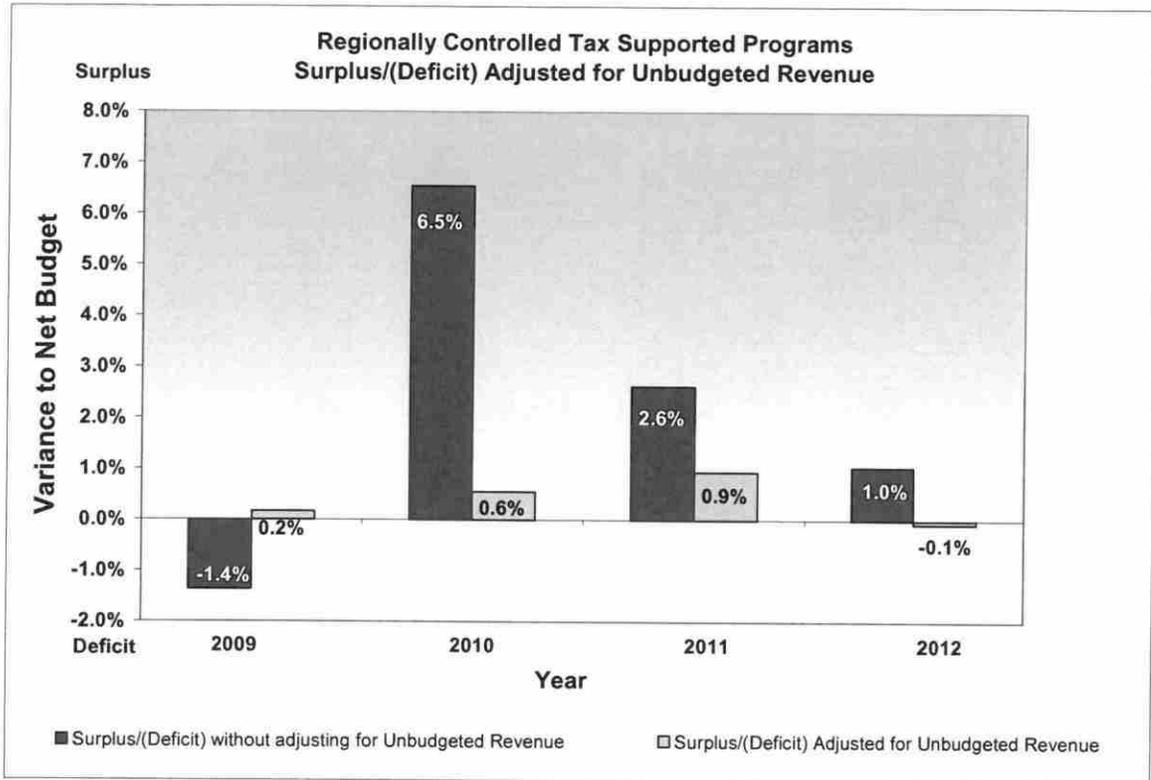
Description of Revenue	Unbudgeted Revenue (in millions)
Provincial Funding	\$2.1
Waste Diversion Ontario	\$3.3
Revenue Variance	\$5.4

b. Surpluses/Deficits Adjusted for Unbudgeted Revenue

If the Region had not received the unbudgeted revenue identified in the preceding analyses, the year end surpluses and deficits would have been as follows:

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As seen in the above graph, after adjusting for the unanticipated revenue fluctuations the year end surpluses/deficits are even closer to target. Over the four year period, 89 per cent of the annual budget variance is attributable to revenue volatility. Excluding revenue volatility, all four years' adjusted budget variances are within the three per cent variance target. Staff review and update the revenue assumptions with each budget cycle based on the best information available at the time.

b) Police Services Surplus Analysis

The following chart shows the variance to budget for both Peel Regional Police (PRP) and Ontario Provincial Police (OPP) Town of Caledon operations from 2009 to 2012. Surplus management for PRP and OPP is done separately from Regionally Controlled Programs.

Table 5: Surplus History – Peel Regional Police and OPP Town of Caledon

	Peel Regional Police (PRP)		OPP Town of Caledon	
	millions	% of net budget	millions	% of net budget
2009	\$8.2	3.0%	\$0.4	4.5%
2010	\$0.2	0.1%	\$0.8	9.1%
2011	\$4.3	1.4%	\$1.4	13.8%
2012	\$3.4	1.1%	\$0.1	1.2%

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The budget variances in the Caledon OPP budget are mainly driven by reductions in the actual policing costs when Caledon OPP officers are re-deployed to work on Provincial matters, such as the 2010 G8 and G20 Summits (reflected in 2011 actuals). The reduction is known as the Provincial Services Usage (PSU) credit. In recent years, the Caledon OPP budget has been adjusted to reflect higher PSU credits.

The 2010 variance is due to a combination of PSU credits and cost savings related to older/lower non-salary rates being charged for items such as uniforms, operational support, telephone and other equipment, in the interim period between the expiry of the old OPP contract and the signing of the new OPP contract.

Peel Regional Police

Peel Regional Police has been below the budget variance target even during years with unbudgeted revenue related to grants and service fees, and temporary staff vacancies.

CONCLUSION

The analysis of recent financial performance completed in response to the direction of Council indicates that when unbudgeted and unexpected revenue fluctuations are taken into consideration, Regionally Controlled Tax Supported Programs and Peel Regional Police have consistently operated within target parameters. Ongoing monitoring of factors which influence financial performance are used to inform future budget planning. Peel's risk management approach to annual budget planning is working well and balances sustainability with respect to the taxpayer.



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