



Township of Scugog Staff Report

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Report Number: FIN-2024-027

Prepared by: Laura E. Barta, CPA, CMA, Director of Finance/Treasurer

Department: Finance

Report To: Council

Date: June 24, 2024

Reference: Strategic Direction 2: Sustainability: Improve sustainability through financial management, innovative funding and efficient and effective delivery of services

SD2 Objective 2: Ensure service effectiveness and efficiency

Report Title: **2023 Operating Surplus**

Recommendations:

1. **THAT** Report FIN-2024-027, 2023 Operating Surplus, be received;
2. **THAT** \$1,000,000 of the 2023 operating surplus be transferred to the Municipal Projects Reserve to offset cost associated with modernizing the Township's operations as well as the implementation of the recommendations in the Service Delivery and Organizational Review;
3. **THAT** \$40,000 of the 2023 operating surplus representing the proceeds of scrap disposal be transferred to the Vehicles & Equipment Reserve Fund;
4. **THAT** \$45,251 of the 2023 operating surplus be transferred to the Roads Climate Contingency to offset the cost of weather related issues in excess of a normal year; and
5. **THAT** the remaining \$200,000 of the 2023 operating surplus be transferred to the reserves as per the Reserve Fund Policy approved by council on December 10, 2018 as follows:

- (a) 20% to Roads and Other Infrastructure Reserve Fund - \$40,000
 - (b) 25% to Vehicles & Equipment Reserve Fund - \$50,000
 - (c) 25% to Building and Facilities Reserve Fund - \$50,000
 - (d) 25% to Municipal Projects Reserve Fund - \$50,000
 - (e) 5% to Major Facilities Reserve Fund - \$10,000
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1. Background:

In accordance with section 290. (1) of the Municipal Act, the Township must prepare and adopt a budget including estimates of all sums required during the year for the purposes of the municipality. To this end, each year the Township prepares a Capital and Operating Budget that outlines the funds needed to provide services to the residents of Scugog and complete Council's objectives for that year based on their strategic planning priorities. The budget numbers used are based on the best estimates available at the time the budget is drafted and always assume a relatively stable environment.

The Township's activity related both to operating and capital budgets are reviewed regularly throughout the year. This continual review is critical to ensure that staff focus on completing projects within budget limits, while being aware of and responding to other priorities or issues that can surface. When needed, decisions are made to defer projects or work to free up budget dollars and resources and allocate the funds and resources to more pressing issues.

2. Discussion:

2.1. Surplus

The audited consolidated financial statements show the surplus for 2023 as just over \$4.7 million. It is important to note that this number represents not only the annual operating surplus described in this report but also the surplus reported for consolidated entities including the Library, BIA and community hall boards; the net impact of investments in capital assets adjusted for annual amortization; and the increase in reserves held for future projects. The Public Sector Accounting Board (PSAB) requires statements to be shown in a specific format and the format is not consistent with the current way municipalities are required to budget annually.

A surplus is defined as the amount by which the revenue of a government entity exceeds its expenditures. The Township budgets to break even each year with enough revenue, including property taxes, to exactly offset the expenditures that are anticipated. A budget surplus is not planned, and results from unexpected changes in priorities, activities and

external factors. The 2023 operating surplus of \$1.285 million was not anticipated, and the majority of factors contributing to the surplus are not expected to continue into 2024.

It is important to note that the 2024 budget was adjusted to reflect any year-to-year changes that were considered sustainable prior to being presented to Council for approval.

2.2. Sources of Operating Surplus

Each year staff estimate the cost to deliver a full range of services to the public and these estimates are used to prepare the annual operating budget documents. While the estimates are based on the best information available at the time the budget is drafted, they are still estimates and are subject to change based on economic conditions.

The following chart shows a high-level summary of the factors that contributed to the 2023 operating surplus:

Revenue Sources	
Property tax related revenue	166,014
Investment income	574,151
Programming revenue, net	133,216
Unexpected grants et	58,812
Expenditure Sources	
Staffing cost caused by vacancies	321,705
Operating costs, net	31,353
	1,285,251

- (a) Property tax related revenue includes supplemental taxes issued in excess of the value budgeted as well as revenue earned from applying penalty on unpaid tax balances. The supplemental taxes billed each year depend on how much new development in the Township is granted occupancy permits and can be assessed by MPAC. The Township estimates the amount each year and the estimate for 2023 was lower than the actual amount added to the tax roll for collection. The penalty applied to outstanding taxes monthly fluctuates depending on how much of the property tax balance remains unpaid. The balances unpaid during 2023 were somewhat higher than that in 2022 and this resulted in additional revenue that was higher than the amount budgeted.
- (b) Investment income for 2023 remained high due to elevated interest rates imposed to reduce inflation. The budget for 2023 was based on investment advisor’s prediction that the Bank of Canada was expected to drop the interest rates during the year and this would result in lower investment earnings. The Bank of Canada did not reduce

the rates in 2023, feeling that inflation had not leveled off and this resulting in investment revenue in excess of the amount budgeted.

- (c) Programming revenue contribution to surplus of \$133,216 is a combination of revenue from township programs that were higher than expected when the budget was drafted, reduced by those programs that did not reach the budgeted revenue expected for 2023. This includes \$17,050 in net filming revenue resulting from the use of Port Perry as a location for movies and TV programs; \$298,432 in SCRC revenue for use of the facility; less \$11,630 shortfall in outdoor facilities usage revenue; \$108,897 shortfall in summer students grant revenue planned to offset summer programs; \$52,007 shortfall in planning fees due to staff capacity to take on additional work; \$3,751 shortfall in museum revenue; and \$5,981 shortfall in net engineering revenue.
- (d) Unexpected income is revenue that was not budgeted and adds to the surplus including \$40,002 earned from the sale of scrap in the public works area and \$18,810 earned by participating in a WSIB program to improve awareness and response to workplace safety.
- (e) Staffing vacancies happen when staff retire or leave the township's employ creating a gap when nothing is paid out until the position is filled. Savings can also occur if an employee was budgeted to participate in full benefit coverage and only participates in part. In 2023 the Township was required to offer OMERS coverage to all employees and budgeted for that in most areas. This coverage was optional and not all eligible employees participated resulting in a savings. The total savings of \$321,705 is the sum of all departments and all programs over the year.
- (f) Operating costs are estimated based on the best information available at the time the budget was prepared. As the year progresses and circumstances change, staff adapt and try to balance activities to provide the best possible service delivery. In 2023 some operating areas had costs in excess of budget while others remained below budget with a net of \$31,353 contributing to the surplus. Some of the notable areas that were over budget in 2023 included \$211,624 increase in professional fees primarily due to having to contract planning activities due to staff capacity; \$8,759 increase in bank charges for accepting credit cards for more programs; \$29,242 increase in cost of extras needed to run recreational programs; \$80,598 increase in vehicle operating costs due to significant repairs on older vehicles; \$55,703 increase in the cost to maintain the contract for animal control due to the increase in demand cause by people turning in animals after the pandemic that they can no longer afford to keep; and \$12,149 increase in cost for unexpected facility repairs. Some of the notable areas that were under budget in 2023 included By-law operating costs of

\$17,681; promotional items not purchased of \$12,746; attendance at conferences and travel of \$16,974; software subscription due to delays in implementation and computers not replaced of \$48,115; \$254,295 saving in road maintenance operations not performed in part due to a warmer winter season and part due to timing of work; and \$79,617 of building fees contributed to overhead based on the fees review.

2.3. Uses of Operating Surplus

The operating surplus reported for 2023 as outlined above resulted from the current environment and provides council with some options that would not have otherwise existed. These include the ability to transfer financing for projects recommended as part of the Service Delivery and Organizational Review (SDOR) as well as the continuing efforts to modernize systems and processes that were not reflected in the 2024 budget.

2.3.1 SDOR & Modernization

The SDOR was completed, and recommendations were presented to council earlier this year. Implementation of the recommendations comes with a cost and since the 2024 budget was approved before council adopted any of the recommendations, it was suggested that the anticipated operating surplus for 2023 could be used to help offset the initial cost of implementing some of the recommendations. In addition, staff are continuing to invest in technology and implement improvements that will modernize the services offered. To facilitate these changes, staff are recommending \$1 million of the 2023 operating surplus be allocated to the Municipal Projects Reserve.

2.3.2 Operating Savings

During 2023 Public Works staff sold off scrap materials that were not previously reported as capital assets or inventory. The proceeds from the sale of these items while not capital related have traditionally been allocated to help offset the cost of new equipment. The need for equipment replacement is documented in the latest asset management plan and the allocation of funds to the reserve to offset these purchases will help reduce the funding deficit that is predicted in the latest five year capital forecast. A \$40,000 allocation to the Vehicle and Equipment Reserve Fund was not done when the sale was recognized and is being recommended as part of this report.

In 2022, council approved the creation of the Roads and Climate Contingency Reserve that was to be used to offset overruns in future budget years caused by weather related issues. This reserve was allocated the surplus of unspent funds in 2021 related to winter control operations and the application of dust layer. Nothing was added based on the 2022 year since the year end surplus was less than \$150,000 bringing the year close to a

breakeven operation. The surplus in 2023 allows for an additional contribution of \$45,251 to the Roads and Climate Contingency Reserve.

2.3.3 Reserve Fund Policy

As in prior years the balance of the surplus will be transferred to reserves in accordance with the current Reserve Fund Policy approved by Council on December 10, 2018. The increase of funds in these reserves will allow for more capital projects to be considered as part of the 2025 capital budget and will help address the Township's infrastructure deficit.

Based on the current allocation process the following transfers are proposed:

- a. 20% to Roads and Other Infrastructure Reserve Fund - \$40,000
- b. 25% to vehicle & Equipment reserve Fund - \$50,000
- c. 25% to building & facilities reserve Fund - \$50,000
- d. 25% to Municipal Projects Reserve Fund - \$50,000
- e. 5% to Major facilities Reserve Fund - \$10,000

3. Financial Implications:

The recommendations contained in the report will have no impact since sustainable impacts were incorporated in the 2024 budget and will provide an additional source of funding for service delivery modernization as well as projects that have been proposed in the Service Delivery and Organization Review and the five-year capital forecast. By allocating a large share of the surplus to the Municipal Projects reserve, staff will be able to offset any impact of the 2024 cost of implementing the SDOR recommendations. By allocating the balance of the surplus in accordance with the reserve fund policy we also recognize that there are significant deficits/needs in all of the Township's asset categories as outlined in the Asset Management Plan and these reserves will continue to help address the deficits.

4. Communication Considerations:

N/A

5. Conclusion:

In 2023, the Township prepared the annual operating and capital budget anticipating a normal year and a break even forecast. 2023 saw continue high inflation that resulted in interest rates favourable to the Township and activity levels that were at or better than those reported in years prior to the pandemic. Many of the service level increases that are considered to be sustainable have been factored into the 2024 operating budget. It is

recommended that this report be received by Council and that Council approve the requested reserve allocations.

Respectfully Submitted by:

Reviewed By:

Laura E. Barta, CPA, CMA
Director of Finance/Treasurer

Ken Nix
Chief Administrative Officer

Attachments:

Attachment N/A

Report Approval Details

Document Title:	2023 Operating Surplus - FIN-2024-027.docx
Attachments:	
Final Approval Date:	Jun 19, 2024

This report and all of its attachments were approved and signed as outlined below:



Kenneth Nix