



**RPT 23-300**

**TITLE:** 2022 Financial Implications - 2022 Yearend Financial Reporting

**DATE:** July 25, 2023

**TO:** Executive Committee

**PUBLIC:** X

**INCAMERA:**

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**RECOMMENDATION:**

That this report be received as information and filed.

**TOPIC & PURPOSE:**

To provide members of Council information as it relates to the City's 2022 financial spending in comparison to the approved 2022 Budget.

**PROPOSED APPROACH AND RATIONALE:**

Attached to this report are detailed descriptions, breakdowns, and explanations for the reason the City incurred a \$3,472,724 deficit overall compared to the 2022 budget. This deficit is a combination of all the deficits and surpluses among the funds, specifically a \$5,378,891 deficit incurred in the General Fund. It is important to understand the financial situation of each individual fund, however it is more important to understand the financial position of the City as a whole as decisions that are made in silos can have drastic ramifications to the entirety of the City.

General Fund	Deficit	\$5,378,891
Sanitation Fund	Surplus	(\$879,574)
Water and Sewer Utility Fund	Surplus	(\$1,875,918)
Land Fund	Deficit	\$597,010
Airport Fund	Deficit	\$252,315
<b>Consolidated</b>	<b>Deficit</b>	<b>\$3,472,724</b>

## **Cause of the Deficit**

There is a variety of contributing factors to the deficit including items like COVID-19 and inflation, however the main theme is lean budgeting and a lack of transparent financial reporting. A deficit of this amount is the result of budgeting too aggressively for revenue targets, and too sparingly for expenses. The 2022 Budget inflated revenue targets in certain areas in order to allow for a lower mill rate. The expense items were budgeted, and in some cases cut, in a way where only the predictable costs were accounted for. While this may be achievable in some years, it does not allow any room for emergency situations or uncontrollable items like inflation.

There are certain situations that occur in the year that cannot be predicted. When an expense is cut or omitted from the budget, the City is not able to generate revenue to pay for that item, however it still needs to be paid, causing a deficit. Lean budgeting is a factor of the current deficit, however a lack of detailed financial reporting also contributed to this overrun as Council and Administration did not have access to timely financial information that could have assisted with decisions on spending.

There were also decisions on additional items to be funded from the Fiscal Stabilization Fund that were not budgeted and contributes to the deficit for the General Fund. At the time of those decisions, there was no timely financial information to assist in those decisions.

## **Fiscal Stabilization**

Fiscal stabilization is intended to absorb these deficits. It is expected that there will be ebbs and flows throughout the life of a municipality, where one year has no/limited emergency situations in order to supplement the years that incur these situations and the related expenses that come with it. However, if lean budgeting continues or costs are not monitored, the City could continue to run annual deficits which puts a strain on the financial health of a municipality.

## **Improvements**

Administration already began to correct these issues in the 2023 Budget as some specific areas were identified as being budgeted too low based on actual spending, or revenue targets that were unattainable. The first quarter of 2023 is a reflection of the continuous improvements being made in the budgeting process as there is a surplus compared to the budget – however, it should be noted that this is only the first quarter of 2023, there are still nine months of the year to be reflected which may still encounter emergency, unpredictable situations.

The previous account structure of the City also caused limitations in detailed, timely financial reporting as the structure did not allow for growth or easy to access information. Administration rectified this situation by investing thousands of hours into a new account structure and are currently working on implementing a new, more robust budgeting software that will allow for real-time reporting on actuals.

While a surplus is always preferable to a deficit, incurring a deficit in one year is not always a signal of financial difficulties to the City. The entirety of the investments and debts of a City need to be analyzed as well to ensure the City is not at financial risk.

The City Auditors provide an audit opinion of this financial health and continue, even in 2022, to not identify any liquidity issues. Liquidity refers to the ease of converting items into cash to pay expenses and debts as they come due. As evidence of this, based on the 2022 Financial Statements, the City's current ratio is approximately 2.1 which means our current assets are able to satisfy our current obligations two times over as they come due.

### **Communication**

The intent of this report is to provide detailed information on the City's 2022 results and hold the City accountable to improving our budgeting, spending, and reporting processes.

### **Yearend Information**

Attached to this Report is the Reconciliation from the Financial Statements to the budgeted surplus/deficit for each of the funds. Also attached is the detailed breakdown relating to each of the funds and the actual revenues and expenditures compared to the approved 2022 Budget.

This document has never been provided to Council previously in this detail, however, Administration wants to provide accountability on the City's spending.

**PRESENTATION:** Verbal Presentation by Briane Vance, Senior Accounting Manager.

### **PUBLIC NOTICE:**

Public Notice pursuant to the Public Notice Bylaw No. 24 of 2015 is not required.

### **ATTACHMENTS:**

1. Reconciliation from Financial Statements to Budgeted Surplus/Deficit.
2. 2022 General Fund Operating Yearend.
3. 2022 Sanitation Fund Operating Yearend.
4. 2022 Water and Sewer Utility Fund Operating Yearend.
5. 2022 Land Fund Operating Yearend.
6. 2022 Airport Fund Operating Yearend.

Written by: Briane Vance, Senior Accounting Manager

Approved by: Director of Financial Services and City Manager