

## **CITY OF FORT SASKATCHEWAN**

### **Quarterly Variance Reports – Transition to an Analysis of Actuals to Budget of Monthly Income and Expenses by Department**

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#### **Motion:**

That Council approve transitioning from the current variance reporting process to an analysis of actuals to budget of monthly income and expenses by department, to be reviewed with Council on a quarterly basis, with a planned June 30, 2017 (Second Quarter) implementation, and approve one-time funding from the Financial Stabilization reserve up to \$19,500 to assist with the implementation of the transition.

#### **Purpose:**

To describe the requirements and resources needed to transition from the City's current variance reporting process to an analysis of actuals to budget of monthly income and expenses by department and review the timing for planned implementation.

#### **Background:**

At the November 14, 2016 regular Council meeting, Council requested that Administration bring a report forward to Council on December 13, 2016 which:

- Outlines what resources are needed to transition from the current variance reporting process to a new analysis, by department, of the actual monthly income and expense reporting as compared to the actual budget for the same period;
- The revised variance reporting analysis is to be reviewed quarterly with Council; and
- The feasibility of beginning the new process as of March 31, 2017.

On December 13, 2016, Council referred consideration of the motion to the January 24, 2017 regular Council meeting to provide Administration more time to complete its investigation.

This report is separated into the following sections that describe:

- The City's current quarterly variance reporting process;
- The new quarterly variance reporting process and requirements for transitioning;
- Proposed timeline for implementation of new variance reporting process.

#### **Current Quarterly Variance Reporting Process:**

The Financial Services Department (Finance), in cooperation with department Directors prepare Forecast and Variance Analysis reports for Council's use on a quarterly basis. The comprehensive reports combine a high level overview of the City's operating revenue and expense variances by function along with detailed explanations of operating variances by division. Variance analysis and forecasting are essential management tools that the City uses to evaluate organizational performance and to assist Council and Administration with decision making.

The quarterly reports include a separate analysis and discussion of the operating and capital budgets. The operating section includes statements of operations by function and by division which provide an analysis of year-to-date actuals, approved annual budget, year-to-end forecasts, and variances between forecast and budget figures along with detailed variance explanations. Capital projects are reviewed on a project-by-project basis and include reporting of total

expenditures to date, estimated costs to complete, estimated completion dates and detailed explanations of variances between actual costs and approved budget.

The City's overall projected operating surplus/deficit figures are also provided each quarter along with explanations as to whether they are revenue or expenditure driven. Additional information provided in the quarterly financial reports consists of the following:

- Current investment balances and performance;
- Utility operations comprising water, wastewater and solid waste;
- Actual and projected reserve balances;
- Debt balances compared to debt limit; and
- Debt payments compared to debt service limits.

The process of creating the quarterly Forecast and Variance Analysis reports involve staff from all City departments and the City Manager. At the close of each month end for March, June, September and December, Finance staff prepare the City's budget, planning and financial reporting software (FMW), to accept the variance and forecast entries and provide instructions to department staff advising them of the process to be followed. Directors and staff from each department are responsible for performing the following:

- A comprehensive review of their department's budgets on a line-by-line basis, analyzing year-to-date actual revenues and expenses, approved budget and forecast figures to the end of the year;
- Update forecast year-to-end figures based on current information such as changes to operating plans, economic conditions, customer preferences, etc.;
- Provide detailed explanations of all significant variances between the approved annual budget and the updated forecast figures;
- Prepare an executive summary covering their department's activities over the last quarter outlining any major outliers, predictions or operational issues that were identified.

For departments with major capital projects such as Recreation, Project Management and Infrastructure Management, the Directors review the current status of each capital project and provide detailed explanations for all significant variances between the estimated costs to complete and the approved capital budget.

After gathering the variance and forecast information from all departments, Finance staff review it for accuracy, reasonability and completeness and begin work drafting the quarterly report. The report is reviewed by the City Manager and the Chief Financial Officer prior to its release. From the time month end is closed, the entire process requires three to four weeks to complete each quarter.

Based on feedback received from Council, Administration has made regular improvements to the format and content of the quarterly Forecast and Variance Analysis reports to include information that is relevant for Council's use.

### **New Quarterly Variance Reporting Process:**

The transition to reporting monthly variances by department on a quarterly basis would enhance the City's forecast and variance reporting, cash flow management and budgeting processes. This additional financial information would serve as a useful tool for assessing departmental performance on a monthly basis.

#### **A) Conversion to a Monthly Budget**

The first step in the transition involves converting the 2017 approved operating budget from an annual basis to a monthly basis. At present, the operating budget is entered and formatted in FMW as an annual budget without separate monthly allotments by department. Meaning, one figure is entered for each budgeted line item instead of 12 separate figures for each month which comprise an annual total. Therefore, in order to report budget figures on a year-to-date basis which is necessary for analyzing budget to actual variances over the same period, the City's entire operating budget, line by line for all 15 departments, must be converted into a monthly format.

In consultation with Rac Software Inc. (RacSoft), the makers of FMW software, FMW is capable of tracking and reporting budget figures on a monthly basis. However, a number of programming and configuration changes are required in order to fully utilize this feature. For an additional cost, this work can be completed by RacSoft. The details of these and other costs are provided later in the report. In addition, RacSoft would create the necessary budget views, reports, and programming tools which would enable FMW to report monthly variances on a quarterly basis going forward.

Based on a preliminary assessment of whether the 2017 operating budget could be converted from an annual basis to a monthly basis in time to report monthly variances by March 31, 2017, several challenges are noted as follows:

- Inclusive of all City departments, Directors and staff would need to convert approximately 1,140 budgeted line items into 12 monthly allotments and review them for accuracy and completeness;
- Additional training for Directors and staff in FMW will be required to cover the process of converting the budget and the new variance reporting processes;
- The additional work to complete the training and conversion would need to integrate with the timing of work already scheduled during this period such as:
  - Implementation of the 2017 approved operating and capital budgets;
  - Year-end audit work and financial statement preparation;
  - Development of the 2017 Property tax bylaw,
  - Replacement of Class software and user training,
  - Development of the 2018 operating and capital budgets.

In order to estimate the time and resources needed to convert the annual operating budget into monthly budgets by department, Finance prepared mockups of the City's two largest departments: Recreation and Infrastructure Management. Upon review and discussion with the Directors of both departments, it was estimated that conversion of their annual budgets to a monthly basis would take between one to two weeks to complete without the need for additional

staff or outside resources. It is expected that other departments would be able to convert their budgets concurrently and within the same timeframe. However, additional time would be required to complete the necessary training in advance, and for Finance to review the monthly budget figures once they have been entered.

Given that the additional work must be completed within existing staff work schedules, the entire conversion process is estimated to take between five to six weeks to complete. This timeframe will allow for training of Directors and their staff on the conversion process, the full 2017 operating budget to be converted into a monthly format, Finance to perform an analysis and review of the monthly budget figures prior to finalizing, and allow time for the processing of any adjustments. It is also important to note that work on converting the budget cannot be performed until the software modifications have been completed.

#### B) Revised Process for Analyzing and Reporting Monthly Variances

Once the City's operating budget is converted to a monthly basis, the second step in the transition is to modify the current forecast and variance reporting processes to be able to report the additional information to Council on a quarterly basis. Directors and their staff will be required to perform additional work each quarter analyzing and explaining variances between actuals and budgets for the same period. This would extend the overall time needed to complete the variance analysis for all departments, and thus the time needed to produce the quarterly variance reports.

For the purpose of illustrating the new quarterly variance report prepared under the new variance reporting process, Appendix 1 includes a sample Quarter 2 Forecast and Variance Analysis for the Planning and Development Department. Variances between year-to-date actuals and year-to-date budget figures to June 30, 2017 are presented. The report also includes variances between forecast to year-end figures and the Department's annual budget. Similar reports would be presented for each department along with a consolidated report that combines all departments. In addition to the figures presented, the actual report would include written explanations of all significant variances identified as part of the analysis.

At this early stage of the analysis, it is difficult to estimate how much additional time would be required to complete the new variance reporting and forecasting processes each quarter. However, two general assumptions can be made. One, that the process will become more efficient as staff become more familiar with the procedures; and two, that certain departments with more complex budgets such as Infrastructure Management will take longer to perform the required analysis than those with less complex budgets. However, Administration is confident that the quarterly forecast and variance reports can still be prepared and presented in a timely manner to Council despite the additional work to be performed by staff.

In addition to training on the process of converting the budget, Directors and their staff will require training on the use of FMW prior to implementing the new forecast and variance reporting process. RacSoft can provide all of the training that is needed and are available to provide further training and/or assistance in the future should it be required.

#### C) Costs Associated With Transitioning to New Variance Reporting Process

As mentioned earlier in the report, FMW is capable of tracking and reporting budget figures on a monthly basis. However, in order to do so, FMW requires several programming and configuration modifications to be performed in advance. RacSoft stated that this work can begin in February 2017 and will take approximately two weeks to complete at an estimated cost of between \$10,000

and \$15,000. RacSoft can also provide end-user training for staff at a projected total cost of \$4,500. Therefore, the total costs of transitioning to the new variance reporting process including software modifications and training is estimated at \$19,500.

No additional costs related to staff are expected as Administration plans to complete the transition to the new variance reporting process within current staffing levels.

### **Proposed Timeline for Implementation of New Variance Reporting Process**

Given the two week requirement for RacSoft to complete the necessary software modifications in February 2017 and the five to six weeks required by staff to convert the City's annual operating budget into a monthly format, implementation of the new variance reporting process by March 31, 2017 is not deemed to be feasible.

A more realistic timeframe for implementation of the new variance reporting process would be in conjunction with the second quarter forecast and variance report prepared as at June 30, 2017. Therefore, should Council approve transitioning to the new variance reporting process, Administration will work toward a June 30, 2017 implementation and will keep Council informed of the progress made to date.

### **Financial Implications:**

The cost of transitioning to the new variance reporting process amounts to \$19,500 to be funded from the Financial Stabilization Reserve.

### **Attachment:**

Appendix 1 – "Sample" 2017 Quarter 2 Forecast & Variance Analysis Report for  
Planning & Development

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File No.:

Prepared by:	Jeremy Emann Chief Financial Officer	January 13, 2017
Approved by:	John Dance General Manager, Corporate Services	January 17, 2017
Reviewed by:	Troy Fleming Acting City Manager	January 18, 2017
Submitted to:	City Council	January 24, 2017