

COUNCIL MEETING
FINANCE DEPARTMENT

REPORT FIN 2025-16
July 8, 2025

**SUBJECT: 2024 Year-End Operating Budget Variance Report and
2024 Capital Progress Report**

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RECOMMENDATION:

THAT Council receives for information the 2024 Year-End Operating Budget Variance Report and the 2024 Capital Progress report up to and including December 31, 2024; and further

THAT Council approves the 2024 Tax Supported Operating Budget surplus of \$1,541,460 to be allocated to the Operating Surplus Reserve Fund; and further

THAT Council approves the 2024 Water/Wastewater (Rate) Supported Operating Budget Surplus of \$1,834,044 to be allocated to the Water/Wastewater Reserve Fund.

RELATIONSHIP TO STRATEGIC

This recommendation is aligned with Council's strategic priority of ensuring "**Economic Growth**" for creating a diverse economy through partnerships and emerging markets to ensure sustainable growth and quality employment.

EXECUTIVE SUMMARY:

The City of Welland ended the fiscal year with an overall operating budget surplus of \$1,541,460 and \$1,834,044 in the Operating Budget and in the Water/Wastewater, respectively. Staff recommend allocating the Tax Supported Operating budget surplus to the Operating Budget Surplus Reserve of \$1,541,460 and allocating the Rate Supported Operating budget surplus of \$1,834,044 to the Water/Wastewater Reserve Fund. It is important to note that

the financial results are still subject to finalization as the annual external audit is underway by the City's external auditors, Grant Thornton.

Within the year-end report, the reserve fund balances increased from 2023 by 11.58%. The deferred revenue reserves established through legislation increased from 2023 by 5.08%. In addition, the investment holdings for the year yielded a 4.68% return. The report for all open capital projects as of December 31, 2024, is attached as Appendix IV.

BACKGROUND:

The City's operating budgets are comprised of a Tax Supported Operating Budget that is primarily funded through the tax levy, user fees, and grants. The Rate Supported Operating Budget is funded through the water/sewer rates and user fees.

Annual operating budgets for all City departments are established and approved by Council. Budgets are established based on existing service levels, professional estimates, current legislative requirements, analysis of trends around commodity pricing, inflationary pressures, interest rates, employment group contracts, and all other information available at the time of the budget. Departments base their budgets on the best estimate for all revenue and expenditure line items. Throughout the year, events and activities occur that impact actual vs. budget. For example, staff recruitment, legislative changes, projection updates, inflation, emergency repair work etc.

Departments are responsible for monitoring budgets on an ongoing basis and projecting to the end of the year. It is common that individual departments may generate a surplus or have a deficit, depending on the circumstances of that department. Since budgets are the best estimate at the time of budget approval. Finance and departments actively monitor the actual performance vs. budget to ensure the overall result is the optimal result base on the current year activities.

Therefore, the overall tax supported operating budget surplus represents approximately 2.03 % of total expenditures of approximately \$75.7 million. The Water/Wastewater supported operating budget overall surplus represents approximately 4.91% of the total expenditures of approximately \$37.3 million. This is a reasonable outcome from a prudent financial management perspective.

The summary by cost centre is attached as Appendix I. Staff comments on the variances are outlined within the Appendix.

DISCUSSION:

2024 Year-End Operating Budget Variance

In Appendix I, the City is reporting a year-end, unaudited surplus of \$1,541,460 in the Tax Supported Operating Budget. This is largely due to an increase in

supplemental tax revenue, investment income, an increase in penalties for overdue accounts, and savings across various expenses that contributed to the surplus.

The City is reporting an overall year-end, unaudited surplus of \$1,834,044 in the Water/Wastewater Supported Operating budgets. The water operating budget performed very close to budget, with a deficit of \$ (154,160). The wastewater operating budget accounted for an operating surplus of \$1,988,205. The majority of the surplus is due to the year-end reconciliation of wastewater by the Niagara Region. This reconciliation compares the budgeted flows (based on a three-year rolling average) vs. the 2024 actual flows for the year. This reconciliation resulted in a rebate for the 2024 year-end. The recommended allocation of the surplus to the reserve will assist in future wastewater capital budgets.

2024 Reserve Funds and Deferred Revenue Reserves

In Appendix II, the total reserve funds set aside for a specific purpose as approved by Council increased approximately 11.58% over 2023, primarily due to the proceeds of Northern Reach received to date in 2024 in the Economic Development Reserve Fund. Annually, many of these reserves are utilized as a funding mechanism for the Operating Budgets and Capital Budgets; however, continuing to use the reserve funds to fund operations and projects is not a sustainable source of funding long term if insufficient contributions are being made to the Reserve Funds.

The portion of reserves that are deferred revenue is set aside for a specific purpose as required through legislation, regulation, or agreement. These reserves are legislated through separate provisions and have differing requirements on how these funds are to be spent. These deferred revenues are collected primarily from Developers (DC's & CIL) and the Federal Government (CCBF). The development charges decreased by approximately 10%, indicating that the DC's were utilized for the eligible expenditures for the various capital projects as determined through the Development Charge background study.

Staff will be bringing forward an updated Reserve Fund By-law and Policy later this year.

2024 Investment Holdings

The City's current investment and cash holdings are outlined in Appendix III. The interest rates for 2024 were comparable to those of 2023 for half of the year at which point in July 2024, rates began to decline. The Bank of Canada issued several rate cuts in 2024. The overall rate of return for all the investments and cash on hand in 2024 was approximately 4.68%. A slight decline in investment income from 2023. Staff continues to monitor market activity to maximize returns for the City as investment income is a budget line item.

2024 Capital Progress Report

The capital progress report attached as Appendix IV outlines all open, outstanding, and completed projects as of December 31, 2024. All departments have provided status comments on the progression of open projects. In addition, there are many projects identified as complete and in warranty that will proceed to a future project close-out report to Council. For a project to proceed to a close-out report, the project must have completed the warranty period and all invoices be paid. At present, there are 184 projects in progress, 8 projects that are on-hold, and 64 have been identified as complete and will be brought forward to a future close-out report.

The capital progress report excludes any projects that are involved in litigation matters, as they are discussed in closed session with Council.

FINANCIAL:

Staff recommend transferring the unaudited Operating Budget Variances to the Operating Surplus reserve and Water/ Wastewater reserve in the amount of \$1,541,460 and \$1,834,044, respectively.

Transferring the surpluses to the reserves is a fiscally responsible action to mitigate future unforeseen financial impacts that may arise in future fiscal years.

ATTACHMENT:

Appendix I - Q4 - 2024 Year End Operating Budget Variance Report by Costing Centre

Appendix II - Q4 - 2024 Reserve Funds and Deferred Revenue

Appendix III - Q4 - 2024 Investment Holdings

Appendix IV - Q4 - 2024 Capital Progress Report