

STAFF REPORT: Finance & IT Services

C.7



REPORT TO: Finance & Administration
MEETING DATE: September 11, 2012
REPORT NO.: FIT.12.56
SUBJECT: 2012 Fiscal Year Deficit Forecast Recommendation
PREPARED BY: Robert Cummings, Director of Finance & IT Services

A. Recommendations

THAT Council receive Staff Report FIT.12.56 "2012 Fiscal Year Deficit Forecast Recommendation" for information purposes and,

THAT Council approve the use of the Working Capital Reserve to fund a potential 2012 deficit up to \$200,000 as the result of a revenue shortfall in the 2012 fiscal year.

B. Background

As per the direction of Council re the August 23, 2012, Finance and Administration Committee meeting, the Town's Senior Management Team (SMT) has been requested to provide suggestions as to how Council could address the projected forecast shortfall in revenue for 2012 in the amount of \$278,000.

Since that meeting, Finance staff has updated the 2012 Year-end forecast. Staff Report FIT.12.55 "August 2012 Financial Report" reflects approximately a \$200,000 deficit as a result of more certain information regarding the 2012 fiscal year.

In dealing with a shortfall in revenue for the current fiscal year, the Committee is quite aware that the services provided are well underway in terms of planning and commitments for the current year. There is little opportunity to reduce or remove services at this point. Additionally, given Council direction on the suggestions SMT brought to Council during the 2012 Budget process, it was apparent that any change in services or service levels was not of interest to Council.

However, the Town has been fiscally prudent in maintaining a Working Capital Reserve over the years. The primary purpose of the Working Capital Reserve is to provide a level of insurance to offset short term fluctuations in cash flows as a result of reduced revenue or unexpected expenses. Therefore, SMT recommends that it is appropriate to fund the 2012 deficit forecast from the Working Capital Reserve.

An alternative approach could be the combination of reserve funding and a reduction or deferral of "discretionary" spending within the operating budget. The impact of this action is immediate in dollar terms but may erode our future productivity. A preliminary estimate indicates there may be \$60k-\$70k to save. A full analysis has not been done.

These measures do not fix the root problem. These efforts only assist in meeting 2012 financial targets. The basis of the problem is the cost to deliver the desired level of service. Staff and Council will have to be cautious and realistic about the expectations for the 2013 Budget process.

On behalf of SMT, it is recommended that Town staff continue to carefully carry out the Town's business plans, monitor and report back to Committee regularly on the status of the 2012 fiscal position and utilize the Working Capital Reserve for any potential shortfall in revenue this year.

C. The Blue Mountains' Strategic Plan

Providing a strong, well managed municipal government.

D. Environmental Impacts

NA

E. Financial Impact

The Town must address a potential \$200,000 deficit this year. If it is not addressed, a deficit would become a 2013 Budget issue that would add about 1.8% to the tax levy in order to cover the deficit. An additional 1.5% would deal with the loss of revenue in 2013. The alternative is a change in services or service levels depending on any further cost saving initiatives brought forward by staff during the 2013 Budget process.

If the potential deficit is funded within 2012, there would be less impact on the 2013 Budget. Staff should identify a Working Capital Reserve replenishment plan.

F. In Consultation With

SMT Finance Staff

G. Attached

NA

Respectfully submitted,

Robert Cummings, CMA
Director of Finance & IT Services

For more information, please contact:

Robert Cummings
rcummings@thebluemountains.ca
519-599-3131 x245