

Report to Council



Date: November 27, 2023
To: Council
From: Matt Friesen, Controller Financial Services
Subject: Third Quarter 2023 Financial Performance
Department: Financial Services

Recommendation:

THAT Council receives, for information, the Third Quarter 2023 Financial Performance Report and Financial Health Dashboard from the Financial Services Controller as a continued approach of presenting timely and relevant financial information.

Purpose:

To provide Council with information summarizing the City of Kelowna's third quarter financial activity in alignment with the format outlined in the February 13, 2023 report to Council on the 2023 Financial Health Dashboard

Background:

2023 Financial Health Dashboard

The 2023 Financial Health Dashboard report brought to Council February 13, 2023 resulted in direction from Council to staff to report quarterly on activity performance measures. The measures of the City's financial performance are in comparison to Council approved budgets.

Discussion:

The Financial Services Department is committed to continuous improvement. As we navigate economic changes and a new macro environment, staff provide regular performance reporting throughout the year to improve governance and financial oversight.

This reports presents:

1. key annual financial health indicators and compares to benchmarks as well as other municipalities throughout the province, specifically those with populations over 100K as well as

within the Okanagan. The comparative data is provided by the province and is updated to 2022. The ratios presented for Kelowna are also from 2022.

2. the City's 2023 activity performance up to the end of the third quarter (September 30th).
3. the City's divisional budget activity as at the end of the third quarter.

Financial Health indicators

The following table provide a description of each indicator:

Financial Flexibility Ratios: Measure the degree to which a Municipality can change its financial structure while still meeting its existing financial obligations in the short term.	
Debt Service to Total Revenue	Measures the percentage of current revenues required to service debt incurred to fund past expenditures and the capacity for the City to incur additional debt.
Own Source Revenue to Total Revenue	Measures the extent to which own source revenues make up total revenues. This is a gauge for how much flexibility the City has to deal with changing revenue sources.
Government Transfers to Total Revenue	Measures grant funding to total revenue. This metric can indicate a consistent level of grant funding and help guard against a dependence on these funds

Financial Sustainability Ratios: Measures the ability of a Municipality to meet its existing financial obligations and maintain operations and services over the long term	
Financial Assets to Liabilities	Measures liquidity and the City's ability to meet financial obligations.
Financial Assets to Total Revenues	Measures cash that can be used to fund current and future expenditures.
Total Accumulated Surplus and reserves to Total Expenses	Measures reserve balances as a percent of operating expenses. Reserves are monies set aside for planned future needs, to smooth expenses, or for unexpected costs. This metric indicates the amount of funds available that could be used to fund City operations.

Competitiveness Ratios: Measures how well a Municipality fares financially on a per capita basis relative to similar municipalities and to the region.	
Tax Burden Per Capita	Measures property taxation revenue collected per City of Kelowna citizen.
Debt Level Per Capita	Measures how much debt the City of Kelowna has per citizen.
Annual Surplus Per Capita	Measures the City's annual surplus per citizen. This metric indicates opportunity to add service capacity within existing taxation levels.

The following are the 2022 results and comparisons:

Financial Flexibility				
		Comparators		
	<u>Kelowna</u>	<u>Benchmark</u>	<u>Population > 100K</u>	<u>Okanagan</u>
Debt service ratio	3%	< 5%	1%	3%
Own Source Revenue	38%	> 40%	30%	34%
Gov. Transfers Ratio	9%	< 10%	4%	12%

Financial Sustainability				
		Comparators		
	<u>Kelowna</u>	<u>Benchmark</u>	<u>Population > 100K</u>	<u>Okanagan</u>
Assets/Liabilities	2.23%	> 1.75%	1.84%	1.39%
Net Fin. Assets/Rev.	110%	> 70%	75%	27%
Accum. Surplus & Reserves/Expenses	161%	> 100%	137%	63%

Competitiveness				
		Comparators		
	<u>Kelowna</u>	<u>Benchmark</u>	<u>Population > 100K</u>	<u>Okanagan</u>
Tax Burden Per Capita	\$2,681	TBD	\$2,902	\$2,340
Debt Per Capita	\$474	TBD	\$669	\$630
Annual Surplus Per Capita	\$606	TBD	\$836	\$478

Activity Performance to date

Performance, seen in the table below, indicates that spending has been below budget while revenue collection has been on budget.

Activity Ratio	Description	Third Quarter Performance (YTD)
Actual Spend to Budget	Measures performance against original and amended net budget. This measure provides an indication of progress toward planned outcomes.	Group: Divisions ➤ \$580M (61%)
Revenue Earned to Budget	Measures revenue performance against original and amended budget. This metric allows management/Council to identify gaps or surpluses, and to adjust where required to reach financial goals.	Group: Divisions ➤ \$673M (71%)
Payroll Expenditure to Budget	Measures salary performance, the City's largest expenditure, against original and amended budget. This measure highlights challenges with recruitment and may be a leading indicator of other upcoming challenges.	Group: Divisions ➤ \$90M (76%)
Capital Expenditure Burn Rate (Actual Spend to Budget by Cost Centre):	Measures the percent of annual capital budget being used and indicates the City's ability to deliver on its capital program.	Group: Capital Cost Centres ➤ \$79M (39%)
Investment Income Revenue to Budget:	As a rapidly growing city, investment income will continue to be a greater part of our annual budget. A more specific metric than Revenue Earned/Budget, this metric specifically measures investment returns to allow management/Council to manage the ongoing impacts of economic volatility.	Group: Investments ➤ \$24M (125%)

Deviation from budget targets is dominated by anticipated timing differences. (For example, the tax revenue collected for the City and for other governments is largely collected annually, during the second quarter.)

Divisional budget target by year-end

Active Living and Culture:	On Budget
Airport:	On Budget
City Clerk:	On Budget
City Manager:	On Budget
Corporate and Protective Services:	On Budget
Corporate Strategic Services:	On budget
Financial Services:	Investment revenue significantly higher than budgeted
Infrastructure:	On Budget
Partnerships and Investments:	On Budget
Planning, Climate Sustainability and Development Services:	Near budget, higher than anticipated revenues from several major construction projects.

Risks Identified

The financial activities and progress to date have been stable and reveal no indication of potential future risks.

Budget redeployment

There will be no budget redeployment at this time.

Conclusion:

As demonstrated in the key financial ratios from 2022, the City maintains its strong financial position. Looking to 2023, the third quarter's financial performance reflects a positive outlook for the organization, with most divisions successfully tracking on budget. The performance across multiple divisions demonstrates the effectiveness of our financial planning and resource allocation strategies.

Internal Circulation:

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Financial/Budgetary Considerations:

Consultation and Engagement:

Communications Comments:

Submitted by: M. Friesen, Controller Financial Services

Approved for inclusion: J. Sass, Divisional Director Financial Services

Attachments:

Appendix A. Presentation to Council