

# Analyst Briefing Notes

## Budget Committee

(January 28, 2008)

**2008 OPERATING BUDGET**

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January 28, 2008

**2008 OPERATING BUDGET****Executive Summary**

- The City Manager's Office's projected year-end net expenditure of \$36.930 million will be \$0.461 million or 1.2% below the 2007 Approved Budget of \$37.391 million. This favourable variance is largely attributable to the hiring freeze as a result of the cost-containment measures implemented at the end of July, 2007.
  - Cost containment measures identified in 2007 will be continued into 2008.
- The 3-Year Operating Budget supports the City Manager's Office Service Delivery Plan and the Program in accomplishing its governance and oversight responsibilities and various legislated requirements.
- The City Manager is responsible for leading the municipal administration and providing guidance and advice to Council on the City's fiscal, organizational, intergovernmental and service challenges. In addition to being accountable to Council for the policy direction and program delivery of all divisions and programs, the City Manager's Office also faces new and additional demands and responsibilities as a consequence of the new City of Toronto Act and governance structure. The Human Resources Division is responsible for effectively resolving grievances; preparing for collective bargaining; implementing collective agreement and legislative obligations; maintaining compliance standards; and proactively preparing the City for impending workforce challenges.
- In pursuit of the above responsibilities, the 2008 Recommended Operating Budget supports the following major services:
  - *Organizational Leadership & Accountability* - Provide direction and support to Council and the Toronto Public Service to ensure the City is well led, organized, transparent and accountable; and to implement the City's policy direction as mandated by Council;
  - *Responsiveness to Diverse Communities* - Ensure City programs, services and decisions are accessible and inclusive and to achieve equitable participation in the social, cultural, economic and political life of Toronto;
  - *Strategic Advice to Council* - Provide professional and objective analysis and advice to the Mayor and Council on the City's financial, governance, organizational, intergovernmental, policy and service priorities;
  - *Employee & Labour Relations* - Develop and maintain harmonious working relationships among managers, employees, unions and staff associations in the administration of employment legislation, the Human Rights Code, Fair Wage Policy and collective agreements;
  - *Organizational Effectiveness* - Build a competent workforce, promote organizational excellence, develop and sustain an organizational culture that values and supports learning, workforce planning and strategic human resource planning.

- *Workforce Planning and Staffing* - Lead, support and guide the development, execution, negotiation and management of staffing, employment equity, human rights, and compensation and job evaluation strategies. Manage the hiring process including outreach, recruitment and selection, work closely to support hiring divisions in their recruitment and workforce transition needs. Negotiate all compensation issues including harmonization, job evaluation, pay equity and pay related grievances with the unions; and
  - *Workplace Health & Safety* - Provide and maintain safe and healthy working conditions for all employees, and support an early and safe return to work program within a culture of continuous workplace improvement.
- The 2008 Recommended Operating Budget for the City Manager's Office meets the 2008 0% target increase over the 2007 Approved Operating Budget.

**Table 1: 2008 Recommended Budget**

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	39,844.4	39,408.4	39,651.5	0.0	39,651.5	(192.9)	(0.5)	2,612.0	576.0
<b>REVENUE</b>	2,453.8	2,478.4	2,260.9	0.0	2,260.9	(192.9)	(7.9)	0.0	0.0
<b>NET EXP.</b>	37,390.6	36,930.0	37,390.6	0.0	37,390.6	(0.0)	(0.0)	2,612.0	576.0
<b>Approved Positions</b>	399.0	369.0	399.0	0.0	399.0	0.0	0.0	0.0	0.0
<b>TARGET</b>			<b>37,390.6</b>		<b>37,390.6</b>				
<b>\$ Over / (Under) Program Target</b>			<b>0.0</b>		<b>0.0</b>				
<b>% Over / (Under) Program Target</b>			<b>0.0%</b>		<b>0.0%</b>				

- The 2008 Recommended Operating Budget for the City Manager's Office is \$37.391 million net. This is comprised of base funding in the amount of \$37.391 million and no funding for new/enhanced service priorities. Approval of the 2008 Recommended Operating budget will result in no changes to the Program's staff complement.
- The 2009 Outlook increase of \$2.612 million includes funding to reinstate 2008 one-time gapping of \$2.176 million. The Outlook includes initial estimates for merit/step increases totalling \$0.576 million each year. However, no COLA estimates are included in the Outlook, since this increase is subject to future negotiations. Reversal of an additional working day's pay in 2008 in the amount of \$0.142 million has partly offset the 2009 Outlook pressures.

- The 2008 Recommended Base Budget meets the 2008 target. The base budget incorporates the Program's key cost drivers including COLA, and other non-discretionary expenditures resulting in a total pressure of \$2.445 million. The 2008 increases are fully offset by incorporating:
  - a Minor Service Level adjustment totalling \$0.269 million by reducing miscellaneous non-salary expenditures.
  - a one-time Major Service Level adjustment to reduce salary costs, in the amount of \$2.176 million, primarily by leaving twenty-two positions unfunded. The additional gapping will increase the 2008 recommended gapping of 3.8% to 9.2% in 2008, representing increased gapping of 5.4%.
- The City Manager's Office's 3-Year Operating Budget supports the following Key Strategic Directions and Priorities:
  - Organizational Leadership & Accountability
  - Responsiveness to Diverse Communities
  - Strategic Advice to Council
  - Employee & Labour Relations
  - Organizational Effectiveness
  - Workforce Planning and Staffing
  - Workplace Health & Safety
- The City Manager's Office is structured into the following five functionally specialized Divisions:
  - *Executive Management Division:* provides professional and strategic support to lead and further improve the municipal administration.
  - *Strategic & Corporate Policy Division:* provides policy advice related to governance and corporate performance, strategic planning, corporate policies, diversity management, citizen engagement and intergovernmental relations.
  - *Internal Audit Division:* provides objective risk and business consulting services to senior management.
  - *Strategic Communications Division:* provides communications planning and issues management.
  - *Human Resources Division:* develops and delivers corporate HR policy and programs
- The 2008 Recommended Operating Budget for the City Manager's Office supports the Program in overseeing corporate, interdivisional and intergovernmental business activities, responding to the requests and needs of City Council, and providing business, operational and administrative support to the City Manager and the senior management team.

### **Recommendations**

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the City Manager's Office of \$39.651 million gross and \$37.391 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Executive Management	2,077.1	2,077.1
Strategic and Corporate Policy	4,250.9	4,250.9
Internal Audit	1,028.1	412.4
Strategic Communications	2,652.5	2,609.7
Human Resources	29,642.8	28,040.5
	<hr/>	<hr/>
Total Program Budget	39,651.4	37,390.6
	<hr/>	<hr/>

## Section A: 2007 Budget Variance Analysis

### Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
<b>GROSS EXP.</b>	37,256.6	39,844.4	39,408.4	(436.0)	(1.1)
<b>REVENUES</b>	2,230.9	2,453.8	2,478.4	24.6	1.0
<b>NET EXP.</b>	35,025.7	37,390.6	36,930.0	(460.6)	(1.2)
<b>Approved Positions</b>	283.0	399.0	369.0	(30.0)	(7.5)

Source: \*Projected Actuals Based on the September 31, 2007 Variance Report.

### 2007 Experience

The City Manager's Office's 3<sup>rd</sup> Quarter Variance Report projects actual expenditures of \$36.930 million net by year-end. This represents a positive variance of \$0.461 million or 1.2% of the Program's 2007 Approved Operating Budget of \$37.391 million net. The favourable variance results from implementation of cost containment measures in July, 2007.

### 2007 Cost Containment Savings

The City Manager's Office will achieve cost containment savings of \$0.461 million in 2007 through the measures itemized in the table below:

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
<b>Hiring Freeze Savings:</b>			
Defer projects, change in workplan priorities, reduce civic engagement initiatives, delay in providing assistance with implementation of City divisional reorganizations, delay in responding to union/management issues	338.1	335.8	Recommended as a reduction option for 2008
<b>Sub-total</b>	<b>338.1</b>	<b>335.8</b>	
<b>Service Level Adjustments:</b>			
Reduce information sharing with counterparts outside the City.	6.0	41.0	Recommended as a reduction option for 2008
Reduce supplies	20.0	10.0	Recommended as a reduction option for 2008
Reduction in Printing and Advertisement materials	30.0	30.0	Recommended as a reduction option for 2008
Defer equipment purchases	26.5	26.5	Recommended as a reduction option for 2008
Miscellaneous	40.0	60.0	Recommended as a reduction option for 2008
<b>Sub-total</b>	<b>122.5</b>	<b>167.5</b>	
<b>Discretionary Savings:</b>			
None			
<b>Sub-total</b>	<b>0.0</b>	<b>0.0</b>	
<b>TOTAL COST CONTAINMENT</b>	<b>460.6</b>	<b>503.3</b>	

**Impact of 2007 Operating Variance on the 2008 Recommended Budget**

- The cost containment measures implemented in 2007 will continue in 2008 as recommended reduction options, resulting in 2008 savings of \$0.503 million.

## Section B: 2008 Operating Budget Overview

### 3-Year Operating Budget Overview

The mission of the City Manager's Office is to:

“Lead the municipal administration and provide guidance and advice to Council on the City's fiscal, organizational, intergovernmental and service challenges and be accountable to Council for the policy direction and program delivery of all divisions and programs”

The City Manager is responsible for leading the City's administration team that sets overall broad direction and strategy for the corporation. The 3-Year Operating Budget supports the City Manager's Office that oversees corporate, interdivisional and intergovernmental business activities, responds to the requests and needs of City Council, and provides business, operational and administrative support to the City Manager and the senior management team.

To achieve this mission, the Program is structured along the following service lines:

SERVICE AREA	DESCRIPTION/RESPONSIBILITIES
Organizational Leadership & Accountability	Lead and develop the implementation of the Mayor's and Council's strategic direction, mitigate and manage risks, provide strategic communication, develop performance measures and benchmarks, manage and resolve issues, develop and maintain corporate intergovernmental relations and organizational reviews and corporate initiatives.
Responsiveness to Diverse Communities	Access & Equity Initiatives, Civic Engagement, Grants Program (Community Investment & Partnership)
Strategic Advice to Council	Provide and support Strategic Communications, Agenda Planning and Coordination, Corporate Intergovernmental Relations, Strategic Policy Development, Develop Governance systems and structures
Employee & Labour Relations	Collective Bargaining Agreement Negotiation, Grievance and Problem Resolution, Expert Advice and Training, Strategic Planning with Unions, City Divisions, HR Community
Organizational Effectiveness	Corporate Learning and Development Programs, Organization Development Advice & Support, Strategic Workforce Planning
Staffing	Recruitment & Selection of Employees, Compensation Programs, Negotiation, Employment Equity Programs, Advice & Support, Human Rights Programs, Management Training & Support.
Workplace Health & Safety	Claims Management, Disability Management, Health & Safety Assessments (occupational hygiene, ergonomic), Safety Audits, Training, Employee Health & Rehabilitation, and Employee Assistance Program.



- In keeping with its service mandate, City Manager's Office's 3-Year Operating Budget supports the following Key Strategic Directions and Priorities:
  - Organizational Leadership & Accountability
  - Responsiveness to Diverse Communities
  - Strategic Advice to Council
  - Employee & Labour Relations
  - Organizational Effectiveness
  - Workforce Planning and Staffing
  - Workplace Health & Safety
- The 2008 Recommended Operating Budget for the City Manager's Office of \$37.391 million net, after service level reductions, meets the 2008 target of \$37.391 million. The 2008 Recommended Operating Budget includes a base budget increase totaling \$2.445 million net. In order to mitigate the impact of rising costs, the following service level adjustment options are recommended:
  - *Salary Cost Reduction of \$2.176 million:* Increase the 2008 recommended base gapping level of 3.8% by 5.4% to a new high of 9.2% primarily by leaving twenty-two approved positions unfunded. This will impact on the delivery of mandated core services.
  - *Non-Salary Cost Reduction of \$0.269 million:* This miscellaneous non-salary cost reduction will result in minor service level impacts.
- For 2008, salary and wage impacts alone account for an incremental net pressure of \$2.179 million net. This includes a cost-of-living adjustment including incremental adjustments for fringe benefits, totaling \$1.112 million and other increases (merit/step and incremental adjustments totaling \$0.898 million.

## **Challenges and Issues**

The major challenge confronting the City Manager's Office in 2008 is the high level of gapping (9.2%) primarily by leaving 22 positions vacant that may impact on the Program's ability to respond to requests for information and provide issue resolution to citizens and Members of Council in a timely manner. It will also mean that a number of reports and projects may be delayed or deferred beyond 2008 and the Program will have difficulty effectively resolving grievances and maintaining compliance standards. Specific core services that may be impacted causing delays by the constrained resources include:

- Responding to Diverse Communities
- Providing Strategic Advice to Council
- Effectively resolving grievances in a timely manner
- Collective Bargaining/Collective Agreement and fulfilling Legislative Obligations

The 2009 Outlook includes funding in the amount of \$2.176 million to restore the gapping rate to a sustainable level of 3.8%.

### Section C: 2008 Recommended Base Budget

**Table 3: 2008 Recommended Base Budget**

(In \$000s)	2007 Approved. Budget \$	2008 Recommended Base \$	Change 2008 Recommended Base vs. 2007 Approved Budget \$ %		FY Incremental Outlook	
					2009 \$	2010 \$
<b>GROSS EXP.</b>	39,844.4	39,651.5	(192.9)	(0.5)	2,612.0	576.0
<b>REVENUE</b>	2,453.8	2,260.9	(192.9)	(7.9)	0.0	0.0
<b>NET EXP.</b>	37,390.6	37,390.6	0.0	0.0	2,612.0	576.0
<b>Approved Positions</b>	399.0	399.0	0.0	0.0	0.0	0.0
<b>NET TARGET</b>		<b>37,390.6</b>			<b>0.0</b>	<b>0.0</b>
<b>\$ Over / (Under) Program Target</b>		<b>0.0</b>			<b>2,612.0</b>	<b>576.0</b>
<b>% Over / (Under) Program Target</b>		<b>0.0%</b>			<b>7.0%</b>	<b>1.5%</b>

### 2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$37.391 million net represents a 0% increase over the 2007 Approved Budget.

- Cost-of-living adjustments (COLA) that average 2.44% for 2008 are non-discretionary outlays that comprise \$0.912 million of the recommended gross expenditure increase of \$2.445 million. These increases have been offset by service level reductions.
- The 2008 Recommended Base Budget results in 399.0 approved positions. This has not changed from the staff complement level in 2007.

### 2008 Key Cost Drivers and Reduction Strategies

- The financial pressure of \$2.445 million in expenditures experienced in the Program's Base Budget is due to merit and step increases, cost-of-living wage increases for union and non-union staff, non-salary economic factors, as well as other base changes that reflect the commitment for cost containment initiatives.
- To alleviate this expenditure impact, the 2008 Recommended Base Budget incorporates two recommended Service Level Reductions that essentially continue the 2007 cost containment measures into 2008:
  - a one-time increase in planned gapping that increases the 2008 recommended level of 3.8% to 9.2% for a salary cost reduction of \$2.176 million. The additional gapping will leave 22 approved positions unfunded.

- a reduction in non-salary expenditures for a total of \$0.269 million: Materials & Supplies - \$0.036 million, Equipment - \$0.020 million, Services & Rent - \$0.178 million, and Inter-Divisional Charges - \$0.035 million.

**2009 and 2010 Outlook: Net Incremental Impact**

The 2009 Outlook increase of \$2.612 million includes funding of \$2.176 million to reinstate the 2008 one-time gapping adjustment in order to restore service levels. The Outlook also includes initial estimates for merit/step increases of \$0.576 million each year in 2009 and 2010. No COLA estimates are included in the Outlooks, since these increases are subject to future negotiations.

**Section E: Issues for Discussion****2008 Operating Budget Issues*****Achieving Zero Target and the 2008 Cost Containment Savings***

The 2008 Recommended Budget includes additional planned (22 positions) gapping of \$2.176 million (or 5.4%) of the 2008 Recommended base salary costs that already includes a 2008 base gapping of 3.8% in order to meet the 0% target. This means the Program will assume a total gapping of 9.2% on its base salary requirements.

This level of gapping resulting in reduced resources may lead to deferral of projects and reports and may result in a delay in the ability to respond to requests for information, resolution of issues and completion of work. Some examples of key activities that may be impacted include:

- Review of procedures within the Contract Management Office - I&T;
- Reduced ability to provide ongoing support and implementation of the City's accountability framework as required by COTA;
- Longer delivery time to implement better civic engagement programs and improve the public's engagement and participation in the City's decision-making processes;
- Reduced ability to support Council's Intergovernmental Strategies;
- Reduced Communications support for written materials, media activities, etc., and
- Demands for increased service by City Divisions on a reduced HR workforce will impact HR's ability to: effectively resolve grievances; effectively prepare for collective bargaining; meet collective agreement and legislative obligations and maintain compliance standards.

This level of gapping is not sustainable; but given the City's financial constraints it is recommended as a one-time reduction. The 2009 Outlook includes an amount of \$2.176 million to restore gapping back to the 2008 recommended base level of 3.8%, enabling the City Manager's Office to fill its 22 vacant positions and meet its service demands.

# Appendix 1

## Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
<b>2007 Council Approved Operating Budget</b>	<b>399.0</b>	<b>39,836.5</b>	<b>2,453.8</b>	<b>37,382.7</b>	<b>0.0</b>	<b>0.0</b>
In-year approvals and technical adjustments						
Corporate adjustments		7.9		7.9		
<b>2007 Approved Operating Budget</b>	<b>399.0</b>	<b>39,844.4</b>	<b>2,453.8</b>	<b>37,390.6</b>	<b>0.0</b>	<b>0.0</b>
Prior year impacts		925.4		925.4	433.9	576.0
Zero base items		(4.1)		(4.1)		
Economic factors		1,188.7		1,188.7	0.0	0.0
<b>Adjusted Base Budget</b>	<b>399.0</b>	<b>41,954.4</b>	<b>2,453.8</b>	<b>39,500.6</b>	<b>433.9</b>	<b>576.0</b>
Other base changes		142.1		142.1	(142.1)	0.0
Base revenue changes			(192.9)	192.9		
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact		(268.7)		(268.7)		
Major service impact		(2,176.3)		(2,176.3)	2,320.2	0.0
<b>Total Recommended Base Adjustments</b>	<b>0.0</b>	<b>(2,302.9)</b>	<b>(192.9)</b>	<b>(2,110.0)</b>	<b>2,178.1</b>	<b>0.0</b>
<b>2008 Recommended Base Budget</b>	<b>399.0</b>	<b>39,651.5</b>	<b>2,260.9</b>	<b>37,390.6</b>	<b>2,612.0</b>	<b>576.0</b>
<b>2008 Program Operating Target</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>37,390.6</b>	<b>0.0</b>	<b>0.0</b>
<b>% Over (Under) Program Target</b>				<b>0.0%</b>	<b>7.0%</b>	<b>1.5%</b>
<b>% Over (Under) 2007 Appvd. Budget</b>				<b>0.0%</b>	<b>7.0%</b>	<b>1.5%</b>

**Appendix 2**  
**Summary of Service Level Adjustments**

## Appendix 4

### Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2007	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
		\$	\$	\$	\$
Insurance Reserve	XR1010	26,270.7	13.8	13.8	13.8
Insurance Reserve	XR1010		68.8	68.8	68.8
Vehicle and Equipment Replacement	XQ0003	403.5	2.3	2.3	2.3
<b>Total Reserve / Reserve Fund Draws / Contributions</b>		<b>26,674.2</b>	<b>84.9</b>	<b>84.9</b>	<b>84.9</b>