

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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Contacts: Judy Broughton, Manager, Financial Planning Division
Tel: (416) 392-8393

Ron Budhu, Senior Financial Planning Analyst
Tel: (416) 397-4559

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2008 OPERATING BUDGET**Executive Summary**

- The 2007 projected net expenditure of \$9.159 million is \$0.946 million below the 2007 Approved Budget. Cost containment savings of \$0.876 million are to be realized from the hiring freeze and freeze on discretionary expenditures. Prior to cost containment, minor under-spending of \$0.070 million was projected.
 - The hiring freeze savings of \$0.789 million are not expected to continue in 2008 as they are not sustainable.
- The 3-Year Operating Budget provides funding for the Office of the Chief Financial Officer to continue to partner with City Programs to deliver excellent public service while continuing to ensure Toronto's financial sustainability. It also provides funding to ensure effective use and oversight of the Corporation's financial resources; the continued development and implementation of a new Financial Planning process and development of the City's Development Charge policies.

The Program faces many challenges in striving to achieve its service objectives:

- City strategies to address financial constraints and a cost reduction environment.
 - Increase in the scrutiny of the City's budget and fiscal position.
 - Rising capital financing requirements while maintaining credit rating.
 - Moving to a multi-year financial planning process without predictable sustainable funding.
 - Budget policy and process changes to implement Public Service Accounting Board (PSAB) directive on Capital Asset Accounting.
 - Providing research and support for establishment of new financial partnerships and continued negotiation of mid and longer-term funding partnerships with other orders of government.
 - Increased service demands resulting in resource capacity challenges.
 - Maximizing investment returns in a low rate environment.
 - Ongoing activities related to the City's new development charges by-law policies.
 - Participate in a number of major, ongoing site-specific projects.
- The 2008 Recommended Operating Budget of \$10.189 million net is \$0.084 million or 0.8% over the 2007 Approved Operating Budget of \$10.105 million net.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Appvd. Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	13,671.7	12,691.4	14,244.4	0.0	14,244.4	572.7	4.2	323.6	356.0
REVENUE	3,567.2	3,532.8	4,055.4	0.0	4,055.4	488.2	13.7	58.5	44.0
NET EXP.	10,104.5	9,158.6	10,189.0	0.0	10,189.0	84.5	0.8	265.1	312.0
Approved Positions	128.0	128.0	128.0	0.0	128.0	0.0	0.0	0.0	0.0
TARGET			10,104.5		10,104.5				
\$ Over / (Under) Program Target			84.5		84.5				
% Over / (Under) Program Target			0.8%		0.8%				

- The 2008 Recommended Operating Budget of \$10.189 million net is comprised of base funding of \$10.189 million with no New/Enhanced Service Priorities.
 - The 2009 Outlook net increase of \$0.265 million includes operating impacts of capital projects, merit and step increases reduced by one less working day. The 2010 Outlook net increase of \$0.312 million includes operating impacts of capital projects, merit and step increases.
- The 2008 Recommended Base Budget is \$0.084 million or 0.8% over the 2008 target. The base budget incorporates the Program's key cost drivers including pressures from COLA, merit and step increases and an additional working day in 2008 and other base changes totalling \$0.363 million. These are partially offset by service efficiencies of \$0.083 million, a reduction in overtime of \$0.040 million and increased recoveries of \$0.155 million.
- There are no New/Enhanced Services recommended for this Program.
- To promote the objectives of the Program, the 2008 Recommended Operating Budget incorporates management of various initiatives that will continue in 2008:
 - Managing specific initiatives including new revenue and related policies, capital financing tools available through the City of Toronto Act and other provincial legislation.
 - Providing research and support for new financial partnerships and continued negotiation of mid and longer-term funding partnerships with other orders of government (such as Spadina Subway, Union Station, etc.).
 - Maintaining and improving the City's financial assets, fiscal health and services by providing information, analysis and recommendations to develop and implement performance based multi-year operating and capital budgets.

- Providing negotiation, assessments and advisory services on major ongoing site-specific projects; development of financial policies related to the new Development Charges By-Law.
- The 2008 Recommended Base Budget provides funding to maintain the same level of service as in 2007. The Office of the Chief Financial Officer will continue to provide finance and administration support to the City; provide financial policy, strategy and advice, investment and debt management; produce budgets, financial advice and variance reporting as well as research, analysis and advisory services for corporate initiatives and development financing.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the Office of the Chief Financial Officer of \$14.244 million gross and \$10.189 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Finance & Administration	4,766.9	4,160.0
Corporate Finance	3,809.3	1,420.6
Financial Planning	5,076.1	4,161.4
Special Projects	592.1	447.0
Total Program Budget	<u>14,244.4</u>	<u>10,189.0</u>

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)	\$	\$	\$	\$	%
GROSS EXP.	12,422.5	13,671.7	12,691.4	(980.3)	(7.2)
REVENUES	2,919.3	3,567.2	3,532.8	(34.4)	(1.0)
NET EXP.	9,503.2	10,104.5	9,158.6	(945.9)	(9.4)
Approved Positions	122.0	128.0	128.0	0.0	0.0

*Projected Actual based on September 30, 2007 Variance Report

2007 Experience

The Office of the Chief Financial Officer's projection to year-end is \$9.159 million net based on the third quarter variance report. This represents a net favourable variance of \$0.946 million or 9.4% of the Program's 2007 Approved Operating Budget of \$10.105 million net.

The net favourable variance is attributed to:

- Realized cost containment savings in the amount of \$0.876 million which includes delays in filling vacant positions (\$0.789 million) and reductions in discretionary spending (\$0.087 million);
- Additional savings of \$0.069 million in gross expenditures is attributable to savings due to extra-ordinary gapping.

2007 Cost Containment Savings

As reported in the 3rd Quarter Variance Report (see table below), the Office of the Chief Financial Officer has achieved cost containment savings of \$0.876 million in 2007. Cost containment measures continuing into 2008 will result in further savings of \$0.065 million.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
Hiring Freeze Savings:			
Financial reporting to Committee and Council delayed, impact on the quality of budget analysis and review, variance reporting, validation of financial implications and responding to adhoc requests.	788.7	0.0	
Sub-total	788.7	0.0	
Service Level Adjustments:			
	0.0	0.0	
Sub-total	0.0	0.0	
Discretionary Savings:			
Defer/cancel business travel, conferences, advertising and print materials, and some equipment and supplies	87.3	65.4	
Sub-total	87.3	65.4	
TOTAL COST CONTAINMENT	876.0	65.4	

Impact of 2007 Operating Variance on 2008 Recommended Budget

The savings realized in 2007 as a result of the hiring freeze will not continue in 2008. The hiring freeze is not sustainable and as such the 2008 Operating budget will continue to include funding for staff at the approved level in order to meet service demands.

Efficiency savings from the absorption of the inflationary increase for Supplies, Equipment and Services in the amount of \$0.009 million and a reduction of \$0.056 million in non-salary discretionary expenditures will result from the continuation of cost containment measures into 2008.

Section B: 2008 Operating Budget Overview**3-Year Operating Budget Overview**

- The Office of the Chief Financial Officer will continue to partner with City Programs to deliver excellent public service while continuing to ensure Toronto's financial sustainability. The 3-Year Operating Budget provides funding to ensure effective use and oversight of the Corporation's financial resources.
- The 3-Year Operating Budget supports the accomplishment of the following Service Objectives:
 - Provide consulting and project management services to improve planning and promote continuous improvement.
 - Continue development and implementation of the multi-year Financial Planning process based on the City's new governance model in the spring of 2008 to prepare for the 2009 process that links service planning and budget processes.
 - Provide independent sound financial advice to protect the City.
 - Provide leadership to protect the City's physical and financial assets by reducing risk and expeditiously resolving legitimate claims.
 - Continue negotiations for funding partnerships with other orders of government.
 - Development of all aspects related to the introduction of a new development charges by-law to be completed in 2008.
- The 2008 Recommended Operating Budget for the Office of the Chief Financial Officer is \$10.189 million net. This is \$0.084 million (0.8%) over the Program's net target of \$10.105 million. This recommended budget incorporates certain base expenditures and attempts to minimize their effects by recommending feasible reduction options as detailed on page 11.
 - For 2008, salary and wage impacts alone account for an incremental net pressure of \$0.371 million net.
 - To help mitigate the impact of rising base costs, the 2008 Recommended Operating Budget for the Office of the Chief Financial Officer includes a number of efficiency proposals as well as service and revenue adjustments. These recommended changes produce net savings of \$0.278 million.

Challenges and Issues

The Program's mission is to ensure the effective use of the Corporation's financial resources by providing sound financial management and advice; maintaining financial controls; developing and implementing effective financial strategies; and by providing timely, accurate and efficient services to Divisions, Agencies, Boards, Commissions and the public.

The Office of the Chief Financial Officer has identified emerging challenges and opportunities over the 3-year period in the following services:

- *Finance and Administration* will continue to manage services provided to the Internal Services Cluster, supporting its day to day operations of delivering quality financial and shared services to other divisions, City Council and the public.

The challenges of financial constraints and the resource capacity will be overcome by the Service Delivery Strategies of managing resources given the fiscal environment and prioritization of projects to be supported.

- *Corporate Finance Division* will provide corporate strategic financial advice and formulate financial policies through the Deputy City Manager and Chief Financial Officer to Council, its Committees, the City Manager and to Divisions, Agencies, Boards and Commissions; manage the City's investment and debt and protect the City's physical and financial assets by reducing risk in the most cost-effective manner through the use of risk financing and control techniques.

The Division will develop mitigation strategies, update long term fiscal plans and monitor and review legislative agendas and budgets to determine the impact on the City. The Division will provide research and support for the establishment of new financial partnerships and continued negotiation of mid and longer-term funding partnerships with other orders of government.

- *Financial Planning Division*, in conjunction with executive management, supports City Council in maintaining and improving the City's financial assets, fiscal health and services by providing analysis, advice and decision support to ensure the effective and efficient management of the City's financial resources and to facilitate allocation of scarce resources in order to optimize services and service levels that are needed by citizens of Toronto.

To address the various challenges, plans are in place to implement a multi-year, service-based Financial Planning Process with focus on performance, long term planning and upfront stakeholder consultation. Establishment of Service Planning to link City priorities to budgeting and results will be facilitated by the new Financial Planning Analysis and Reporting System (FPARS) to deliver multi-year operating budgets and eliminate shadow systems by the 2010 budget cycle (shorter term). An integrated project plan with Corporate IT and Accounting Services will result in functionality to leverage and maximize use of resources corporately as well as implement divisional restructuring. Strategies to foster productivity enhancements and efficiencies through the service planning process, better scheduling and automation to maximize the use of available staff to satisfy growing demands for services and service improvements and restructuring and reprioritization of work to enable existing staff to fulfill the growing demands of the Service Planning process, Public Service Accounting Board (PSAB) directive on Capital Asset Accounting and Program Review are planned.

- *Special Projects Division* is primarily responsible for providing financial analysis, negotiations and strategic advisory services in a number of major, ongoing site-specific projects including the Spadina Subway Extension, Union Station and the waterfront renewal. The Division is also responsible for the development and administration of all activities associated with the introduction of a new Development Charges By-Law.

Strategic Priorities

The Office of the Chief Financial Officer provides support to City Programs for capital works that align with the strategic priorities of Council's policy agenda. Selected examples include Economic Competitiveness and Tax Policy Initiatives, the Clean and Beautiful City Secretariat; Climate Change; Wet Weather Flow Master Plan; Clean Air and Sustainable Energy Action Plan.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

	2007 Appvd. Budget	2008 Recommended Base	Change 2008 Recommended Base v. 2007 Appvd. Budget		FY Incremental Outlook	
					2009	2010
(In \$000s)	\$	\$	\$	%	\$	\$
GROSS EXP.	13,671.7	14,244.4	572.7	4.2	323.6	356.0
REVENUE	3,567.2	4,055.4	488.2	13.7	58.5	44.0
NET EXP.	10,104.5	10,189.0	84.5	0.8	265.1	312.0
Approved Positions	128.0	128.0	0.0	0.0		
NET TARGET		10,104.5				
\$ Over / (Under) Program Target		84.5				
% Over / (Under) Program Target		0.8%				

2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$10.189 million net represents a \$0.084 million (0.8%) increase over the Office of the Chief Financial Officer's 2007 Approved Operating Budget while maintaining 2007 service levels.

- Cost-of-living adjustments (COLA) that average 2.44% for 2008 are non-discretionary expenditures that account for \$0.311 million of the recommended gross expenditure increase of \$0.573 million.
- The \$0.488 million increase in revenues recommended in the 2008 Base Budget is for increased inter-program recoveries of inflationary costs for services provided to various City Programs and capital recoveries for staff working on key priority capital projects.
- The 2008 Recommended Base Budget includes 128 approved positions, which is unchanged from the staff complement level in 2007.

2008 Key Cost Drivers and Reduction Strategies

- The additional \$0.573 million expenditures recommended for the Program's Base Budget is needed to fund merit and step increases, wage increases for exempt staff, one additional working day in 2008 and capital projects, as well as other base changes.

- To alleviate some of this expenditure impact, the 2008 Recommended Base Budget incorporates, amongst others, the following incremental revenues:
 - Inter-program recoveries of inflationary increases for costs of services provided (\$0.057 million)
 - Recovery of costs for staff working on capital projects (\$0.262 million).
 - Recovery of staff costs from the Toronto Transit Commission in the amount of \$0.130 million for resources dedicated to the Spadina Subway Extension project.
- To further constrain the growth of the base budget, various efficiencies are recommended, thereby generating additional savings of \$0.123 million:
 - Foregoing most of the non-salary economic factors that the Program has been allocated (\$0.009 million).
 - Efficiency measures to reduce discretionary expenditures and overtime (\$0.114 million).

2009 and 2010 Outlook: Net Incremental Impact

Although some of the efficiencies and revenue adjustments included in the 2008 Recommended Operating Budget are expected to produce additional savings of \$0.278 million, the initial outlook on the 2009 operating budget reflects a pressure of \$0.265 million net for salaries and benefits and the operating impact of capital projects.

The outlook for 2010 does not include a provision for COLA, as the increase is subject to future negotiations, but includes operating budget pressures of \$0.312 million net for merit/step increases and the operating impact of capital projects.

Section E: Issues for Discussion**2008 Operating Budget Issues**

There are no issues for this Program. However, the Program will continue to support and actively participate in:

- Developing and implementing new tax revenues.
- The development of the City's development charge policies and administration of aspects of the Development Charges By-Law.
- The Service Planning Process in time for the 2009 budget process.
- Uploading discussions of the City's financial position with other orders of government.

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
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	123.0	13,546.4	3,578.1	9,968.3	0.0	0.0
In-year approvals and technical adjustments	5.0	136.2		136.2		
Corporate adjustments		(10.9)	(10.9)	0.0		
2007 Approved Operating Budget	128.0	13,671.7	3,567.2	10,104.5	0.0	0.0
Prior year impacts		47.2	0.0	47.2		
Zero base items						
Economic factors		637.9	80.9	557.0	234.2	241
Adjusted Base Budget	128.0	14,356.8	3,648.1	10,708.7	234.2	241.0
Other base changes		10.8	252.1	(241.3)	30.9	71.0
Base revenue changes				0.0		
Recommended Service Level Adjustments:						
Service efficiencies		(83.2)		(83.2)		
Revenue adjustments			155.2	(155.2)		
Minor service impact		(40.0)		(40.0)		
Major service impact				0.0		
Total Recommended Base Adjustments	0.0	(112.4)	407.3	(519.7)	30.9	71.0
2008 Recommended Base Budget	128.0	14,244.4	4,055.4	10,189.0	265.1	312.0
2008 Program Operating Target	N/A	N/A	N/A	10,104.5	0.0	0.0
% Over (Under) Program Target				0.8%		
% Over (Under) 2007 Appvd. Budget				0.8%		

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 \$	Recommended Withdrawals (-) / Contributions (+)		
			2008	2009	2010
			\$	\$	\$
Insurance Reserve Fund	XR1010	28,136.6	23.7	23.7	23.7
Insurance Reserve Fund	XR1010		(1,107.3)	(1,130.7)	(1,149.9)
Development Charges Reserve	XR2030	1,705.9	(119.9)	(120.9)	(123.6)
Total Reserve / Reserve Fund Draws / Contributions		29,842.5	(1,203.5)	(1,227.9)	(1,249.8)