

Analyst Briefing Notes
Administration Committee Review
(January 5, 2006)

PART I: 2006 OPERATING BUDGET OVERVIEW

Executive Summary 1
 Recommendations 2

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis 3

2005 Experience 3
 Impact of 2005 Operating Variance on 2006 Proposed Budget 3

Section B: 2006 Proposed Base Budget 4

2006 Proposed Base Budget 4
 2006 Key Cost Drivers 5
 Summary of Proposed Base Budget Changes from 2005 Approved Budget 6

Section C: 2006 Base Budget Issues 7

Key Issues and Recommendations..... 7
 Issues Referred To 2006 Operating Budget Process 8
 Outstanding Issues For 2005 and Prior Years 8

Appendix A: Summary of Service Level Adjustments..... 9

PART III: NEW COUNCIL PRIORITIESN/A

Section D: 2006 Proposed New Council Priorities.....N/A

Summary of 2006 Proposed New Council PrioritiesN/A
 Key Issues and Recommendations.....N/A

Appendix B: Summary of New Council Priority ServicesN/A

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

Maria Djergovic , Senior Financial Planning Analyst
 Tel: (416) 397-4558

PART I: 2006 Operating Budget Overview

Table 1: 2006 Proposed Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.			2007	2008
(In \$000s)	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	111,602.5	111,527.5	116,580.2	0.0	116,580.2	4,977.7	4.5	0.0	0.0
REVENUE	60,361.0	60,361.0	64,471.2	0.0	64,471.2	4,110.2	6.8	0.0	0.0
NET EXP.	51,241.5	51,166.5	52,109.0	0.0	52,109.0	867.5	1.7	0.0	0.0
Approved Positions	764.4	764.4	764.4	0.0	764.4	0.0	0.0	0.0	0.0
TARGET			52,266.3						
\$ Over / (Under) Program Target			(157.3)						
% Over / (Under) Program Target			-0.3%						

Executive Summary

- The 2005 projected actual year-end net expenditure is \$51.166 million net. Compared to the 2005 Approved Budget, this represents a favorable variance of \$0.075 million, mainly attributable to the savings in staff salaries and benefits due to an Internal Services' imposed hiring freeze. Revenues are projected to be in line with the budget.
- The 2006 Proposed Operating Budget for Facilities and Real Estate of \$52.109 million net is comprised fully of Base funding. It is 1.7% higher than the 2005 Approved Budget and it is 0.3% or \$0.157 million below the 2006 target.
- The 2006 Proposed Base Budget includes an anticipated increase in revenue of \$4.110 million: a) \$0.172 million in incremental revenues from 2005 Council approvals; b) \$1.078 million in recoveries from other client programs for services provided on a full cost recovery basis; and (c) \$2.860 million in revenues from increased service requests and/or increased lease revenues.
- In addition, the 2006 Proposed Base Budget incorporates anticipated savings from contract efficiencies of \$0.152 million and increased gapping of \$0.148 million to bring the Program's gapping rate to last year's percentage of 3.3%.
- Key cost drivers include incremental impacts of Council approvals from 2005 such as funding for full year salaries for staff working on detailed lease agreement reviews and pressures from

2006 Operating Budget

Facilities and Real Estate

inflationary salary and non-salary expenditures such as cost of living adjustments (COLA), ongoing merit and step increases and higher fringe benefit costs.

Recommendations

It is recommended that the Facilities and Real Estate 2006 Proposed Operating Budget of \$ 116.580 million gross and \$52.109 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000's)</u>	Net <u>(\$000's)</u>
Facilities	103,332.5	63,857.1
Real Estate	13,247.7	(11,748.1)
Total Program Budget	<u>116,580.2</u>	<u>52,109.0</u>

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis**Table 2: 2005 Budget Variance Review**

	2004 Actuals	2005 Approved Budget	2005 Projected Actuals *	2005 Approved vs Projected Actuals Variance Over / (Under)	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	91,597.3	111,602.5	111,527.5	(75.0)	(0.1)
REVENUES	59,739.8	60,361.0	60,361.0	0.0	0.0
NET EXP.	31,857.5	51,241.5	51,166.5	(75.0)	(0.1)
Approved Positions	749.0	764.4	764.4	0.0	0.0

*Projected Actual Expenditures to year-end based on 3rd Quarter Variance Report.

2005 Experience

The Program's year-end projection is \$51.166 million net. Compared to the 2005 Approved Budget, the year-end projection reflects a favorable variance of \$0.075 million, mainly attributable to the savings in staff salaries and benefits due to the Internal Services' imposed hiring freeze.

The 2005 Approved Operating Budget includes budgeted gapping of \$1.716 million which represents a rate of 3.3%. The Program is expected to achieve projected gapping for 2005. However, it advised that it is increasingly difficult to generate additional savings, since gapping can only be achieved on positions that are not recoverable through chargebacks to clients, which represents approximately 50% of Facilities and Real Estate staff complement.

Impact of 2005 Operating Variance on 2006 Proposed Budget

The favorable net operating budget variance projected in the 3rd Quarter Variance Report is not expected to recur in 2006.

Section B: 2006 Proposed Base Budget

Table 3: 2006 Proposed Base Budget

	2005 Approved Budget	2006 Requested Base	2006 Proposed Base	Change 2006 Proposed Base v. 2005 Approved Budget		FY Incremental Outlook	
						2007	2008
(In \$000s)	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	111,602.5	117,160.2	116,580.2	4,977.7	4.5	0.0	0.0
REVENUE	60,361.0	64,964.5	64,471.2	4,110.2	6.8	0.0	0.0
NET EXP.	51,241.5	52,195.6	52,109.0	867.5	1.7	0.0	0.0
Approved Positions	764.4	764.4	764.4	0.0	0.0	0.0	0.0
NET TARGET		52,266.3					
\$ Over / (Under) Program Target		(157.3)					
% Over / (Under) Program Target		-0.3%					

2006 Proposed Base Budget

- The 2006 Proposed Base Budget of \$52.109 million net represents a 1.7% increase over the 2005 Approved Budget and therefore it is 0.3% below the 2006 target.
- The increase in gross expenditures of \$4.978 million or 4.5% is mainly the result of collective agreement decisions, higher fringe benefit costs and other non-salary inflationary increases.
- To alleviate the expenditure impact, the 2006 Proposed Base Budget incorporates anticipated recoveries in the amount of \$4.110 million as follows :
 - \$0.172 million in revenue from 2005 Council approvals to account for full year revenue expected from detailed lease agreement reviews.
 - \$1.078 million in recoveries from fully recoverable client services such as project management, facility life cycle planning and maintenance, life and security services, custodial services and customer support functions.
 - \$2.860 million in revenue from increased lease and other revenues.
- In addition, the 2006 Proposed Base Budget includes \$0.152 million in anticipated savings from increased contract efficiencies and \$0.148 million in additional gapping.

The above adjustments were used to offset some of the gross expenditure increases and to bring the Program’s 2006 Proposed Base Budget below the 2006 target.

2006 Key Costs Drivers

Key cost drivers include:

- Ongoing merit, higher fringe benefit costs and other non-salary inflationary increases, result in additional costs of \$2.050 million.
- Cost of living adjustments that average 3% for 2006 are non-discretionary expenditures that account for \$1.544 million in additional costs.
- These costs are partially offset by increases in revenues of \$1.078 million from fully cost-recoverable services from other corporate clients such as Court Services, Toronto Police Services, Parks, Forestry and Recreation and Social Services.
- The incremental financial impact from 2005 Council approvals amounts to \$0.111 million, to fund full year salaries for staff working on detailed lease agreement reviews. These costs are offset by the incremental revenue of \$0.172 million approved by Council in 2005, resulting from updating lease agreements to market rates.
- Increases in service contract costs of \$1.572 million are offset by anticipated savings from contract efficiencies of \$0.152 million, increased gapping of \$0.148 million and \$2.860 million in revenues from client services, mainly services provided to Toronto Water. Some space renovations will be required and there will be additional costs for utilities and other materials and supplies.

**Table 4: Summary of Proposed Base Budget Changes
From 2005 Approved Budget**

	Summary of 2006 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2007	2008
(\$000's)		\$	\$	\$	\$	\$
2005 Approved Operating Budget	756.0	88,544.6	53,760.7	34,783.9	0.0	0.0
In-year approvals and technical adjustments	8.4	23,057.9	6,600.3	16,457.6		
2005 Approved Operating Budget	764.4	111,602.5	60,361.0	51,241.5	0.0	0.0
Annualizations		715.0	353.3	361.7		
Economic factors		2,989.8	896.9	2,092.9		
Adjusted Base Budget	764.4	115,307.3	61,611.2	53,696.1	0.0	0.0
Other base changes		1,852.9	3,353.3	(1,500.4)		
Base revenue changes						
2006 Base Budget Request	764.4	117,160.2	64,964.5	52,195.6	0.0	0.0
Recommended Base Adjustments:						
Other base changes		(580.0)	(493.3)	(86.7)		
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Proposed Base Adjustments	0.0	(580.0)	(493.3)	(86.7)	0.0	0.0
2006 Proposed Base Budget	764.4	116,580.2	64,471.2	52,109.0	0.0	0.0
2006 Program Operating Target	N/A	N/A	N/A	52,266.3		
% Over (Under) Program Target	N/A	N/A	N/A	(0.3)		
% Over (Under) 2005 Approved Budget	0.0	4.5	6.8	1.7		

Section C: 2006 Base Budget Issues**Key Issues / Recommendations*****Other Base Budget Changes***

Other Base Changes include an expenditure increase of \$1.853 million, or 1.7% over the 2005 Approved Base Budget, for increased contract expenditures. Some space renovations will be required and there will be additional costs for utilities and other materials and supplies. These costs will be offset by anticipated increases in service requests of \$3.353 million, mainly from Toronto Water.

The 2006 Proposed Based Budget incorporates the following base budget adjustments:

- Reduced interdivisional recovery of \$0.400 million from Toronto Water. The 2006 Requested Base Budget anticipated an increase in recoveries from Toronto Water for services provided by Facilities and Real Estate in the amount of \$0.800 million. A decrease in recovery of \$0.400 million is proposed and it will be offset by: (a) a reduction in expenditures of \$0.152 million from savings to be generated from contract efficiencies; and (b) an increase in leasing revenues of \$0.248 million, resulting in a net impact of zero. The future year impact is still under review.
- Reduced interdivisional recovery of \$0.280 million from cleaning services for the Toronto Police Services and associated costs, resulting in a net impact of zero. The adjustment reflects the Toronto Police Services decision not to include this item in its 2006 Operating Budget.

Service Level Changes

The 2006 Proposed Budget does not include any service level adjustments. The Program anticipates that it will be able to stay below the 2006 target without any service level changes.

3 Year Operating Budget Overview

- The Program is projecting that it will be able to meet the 0% increase target in both 2007 and 2008. Known pressures include merit and step increases, as well as COLA and other inflationary factors.
- However, it should be noted that inflationary pressures for utilities can be significantly higher in 2007 and beyond. Inflationary impacts from rising utility prices in 2006 are included in the 2006 Non-Program Budget. If transferred to Facilities and Real Estate, this item will create an additional pressure on the Program's base budget in future years.
- Since 50% of the Program's staff provides direct client service that is fully recoverable through chargebacks, gapping can only be achieved on the remaining positions, which subsequently represents a much higher percentage (up to 6%) of gross salaries. The Program advises that a further increase in gapping can negatively impact its ability to deliver services.
- The 2007 and 2008 Outlook will be further reviewed early in 2006. The Program will develop plans to achieve a net 0% increase target and to address potential service level implications.

Service Levels, Delivery or Gap Issues

Facilities and Real Estate will undertake detailed service reviews in 2006. The main objective will be to identify potential service level gaps as well as service level adjustments required to meet the 0% increase target in future years.

Issues Referred to 2006 Operating Budget Process

None.

Outstanding Issues from 2005 and Prior Years

None.

Appendix A
Summary of Service Level Adjustments