
2006 BUDGET BRIEFING NOTE

Cost Containment Measures to Mitigate Projected Deficits

Issue/Background:

This briefing note summarizes the major cost containment measures implemented by the City to mitigate the projected year-end deficits in both 2004 and 2005.

At its meeting of December 14 and 16, 2005, Council amended and adopted Clause 39 of Policy & Finance Committee Report 10 entitled "Operating Variance Report for the Nine Months Ended September 30, 2005." The amendment required "that the Deputy City Manager and Chief Financial Officer provide Members of Council with a Briefing Note on the Action Plan which was in place at this time in 2004 for the deficit, and the Action Plan currently in place for this year."

Key Point(s):

- In December of 2003, following consultation with the Mayor, the City Manager directed that the cost containment measures adopted by City Council at its meeting of September 22-25, 2003 and implemented for the fourth quarter of 2003 be continued during the first quarter of 2004. These Council approved measures included: "freeze hiring; increase gapping; defer consulting contracts; defer attendance at conferences, seminars and business travel; and curtail discretionary expenditures." In addition, "any expenditure in these areas and other discretionary spending be based on critical need and approved by the Department's Commissioner."
- At its meeting of March 8, 2004, the Budget Advisory Committee (BAC) directed that these measures be extended for all City Departments, Agencies, Boards and Commissions to December 31, 2004. Specifically, BAC directed that "the discretionary spending freeze be extended for the rest of the 2004 fiscal year; that full justification and approval by Commissioners and Heads of the Agencies, Boards and Commissions be required for exception to this policy; and the freeze on hiring continue for the rest of the 2004 fiscal year."
- Despite these cost containment measures, a 2004 year-end deficit was projected as part of the Operating Variance Report for the Nine Months Ended September 30, 2004. As a result, the report stated that "the CAO and CFO will closely monitor expenditures during the remainder of the year and will make recommendations regarding the probable unfavourable variance at year-end. These recommendations will be presented in the preliminary fourth quarter operating variance report and will most likely include the utilization of stabilization reserves and any excess revenues in Departments and TTC operations."
- In July of 2005, given "the existing structural fiscal imbalance" and the projected year-end deficit following the first six months of operations, the City Manager directed that "for the remainder of 2005, and until further notice, it is necessary to reinstate cost containment

measures, including a restriction on hiring.” The directive prescribed that approval would only be granted for “staffing requests for essential positions.” Essential positions included the following: where there is a legislative requirement (i.e. staff ratios); where there is a health and safety requirement; and where we must maintain an essential operation. Exceptions were also made where the position was 100% funded from external agencies and/or staffing of critical front-line service positions were involved. The hiring freeze applies to both internal and external recruitment.

- The Deputy City Managers (DCMs) issued similar communications to their respective Divisions ensuring that cost containment was consistent across the City. In addition, the DCMs directed the Divisions to ensure the 2005 gapping targets would be met and to identify vacant positions that exceeded gapping targets for potential reduction in 2006.
- At its meeting of September 28-30, 2005, Council adopted the Policy and Finance Committee (P&F) recommendation that “the Deputy City Manager/Chief Financial Officer be directed to meet with Deputy City Managers, Division Heads and General Managers of Agencies, Boards and Commissions that are projecting year-end net over expenditures to ensure that mitigating actions are taken to achieve a balanced budget by year-end.” Council also added “that the Deputy City Manager and Chief Financial Officer be requested to find efficiencies so as not to affect service levels.”
- Furthermore, at its meeting of December 14 and 16, 2005, Council adopted the P&F recommendation that “Deputy City Managers, Division Heads and General Managers of Agencies, Boards and Commissions be directed to continue to implement mitigating strategies and/or cost containment measures to achieve a balanced budget by year-end.”

Conclusion:

In order to mitigate any projected year-end deficit, Council, at the recommendation of staff, imposed cost containment measures for 2004 that were continued in 2005. These measures included a hiring freeze except for the most critical front-line positions, increased gapping and deferred spending on other discretionary expenditures (consulting, conferences, travel). The City Manager and Deputy City Manager & Chief Financial Officer are continuing to monitor the City’s financial situation as 2005 year-end entries are processed during the first part of 2006 and will make recommendations regarding any potential unfavourable variance in the 2005 Preliminary Year-end Operating Variance Report.

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