

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

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2007 OPERATING BUDGET

Executive Summary

- The 2006 preliminary year-end net expenditure of \$9.499 million is \$0.442 million below the 2006 Approved Budget. The savings are primarily the result of extraordinary gapping realized due to staff secondments to other divisions for special projects and backfills.
 - These savings are not expected to continue in 2007 as service level adjustments have been provided based on actual experience.
- The 3-Year Operating Budget provides funding for the continued development and implementation of a new Financial Planning process and the New Development Charges system at the same time focusing on improving services to all City Programs. For 2008 and 2009, 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.
 - Service level adjustments of \$0.187 million identified to help defray the Program’s escalating base costs with minimal service impact by absorbing inflationary increases and efficiencies in materials, equipment and training.
 - Increased recoveries from capital projects and investment earnings of \$0.164 million in support of the Program’s strategic priorities.
- The 2007 Recommended Operating Budget of \$9.968 million net is \$0.027 million or 0.3% over the 2006 Approved Budget of \$9.941 million net and the 2007 target.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended Operating Budget v. 2006 Appvd. Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	13,215.5	12,418.2	13,452.2	94.2	13,546.4	330.9	2.5	390.7	(30.0)
REVENUE	3,274.7	2,919.3	3,483.9	94.2	3,578.1	303.4	9.3	0.0	0.0
NET EXP.	9,940.8	9,498.9	9,968.3	0.0	9,968.3	27.5	0.3	390.7	(30.0)
Approved Positions	122.0	113.0	122.0	1.0	123.0	1.0	0.8		
TARGET			9,940.8		9,940.8				
\$ Over / (Under) Program Target			27.5		27.5				
% Over / (Under) Program Target			0.3%		0.3%				

- The 2007 Recommended Operating Budget of \$9.968 million net is comprised of base funding of \$9.968 million and zero net for New/Enhanced Service Priorities for 1 new dedicated position to be assigned to the new Development Charges By-law project.
 - The 2008 Outlook net increase of \$0.391 million or 3.9% includes cost of living allowances (COLA), merit and step increases and an extra day in 2008. The 2009 Outlook net decrease of (\$0.030 million) includes merit and step increase which is reduced by one less working day in 2009. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.
- The 2007 Recommended Base Budget is \$0.027 million or 0.3% over the 2007 target. The base budget includes service efficiencies of \$0.022 million net for the absorption of inflationary increases; \$0.123 million for general non-salary expenditures; \$0.043 million for increased planned gapping and \$0.164 million in increased recoveries from capital/investment earnings to reflect level of service.
 - The 2007 Key Cost drivers include pressures from COLA, merit and step increases and an additional working day in 2007 as well non-discretionary expenditures. These pressures are partially offset by recommended service level adjustments.
- The 2007 Recommended Budget includes Enhanced Services of \$0.094 million gross with net zero impact for 1 new dedicated position to be assigned to the new Development Charges By-law project and no net incremental impact on future years.
- The 2007 Recommended Base Budget provides funding to maintain the same level of service as in 2006. The Office of the Chief Financial Officer conducted a thorough review of the expenditures and revenues in order to identify achievable options without major impact on service levels.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for the Office of the Chief Financial Officer of \$13.546 million gross and \$9.968 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Finance & Administration	4,629.7	4,285.0
Corporate Finance	3,679.9	1,477.3
Financial Planning	4,669.9	3,759.0
Special Projects	566.9	447.0
Total Program Budget	<u>13,546.4</u>	<u>9,968.3</u>

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	15,783.0	13,215.5	12,418.2	(797.3)	(6.0)
REVENUES	3,032.1	3,274.7	2,919.3	(355.4)	(10.9)
NET EXP.	12,750.9	9,940.8	9,498.9	(441.9)	(4.4)
Approved Positions	122.0	122.0	113.0	(9.0)	(7.4)

Source: *Projected Actuals Based on the Preliminary Year-End Operating Variance Report.

2006 Experience

The Office of the Chief Financial Officer has reported a preliminary year-end net favourable variance of \$0.442 million or 4.4% of the 2006 Approved Operating Budget.

- The net favourable variance is attributed to:
 - The favourable variance of \$0.797 million in gross expenditures is mainly attributable to savings in salaries due to extraordinary gapping incurred throughout the year (4% actual versus 2006 budget of 3.6%). Positions were held open and discretionary savings held back pending the recommendations from the Finance & Administration review. Staff assigned to special projects in other divisions, under filling and deferral of conferences due to work load commitments contributed to the overall under spending.
 - The unfavourable revenue variance of \$0.355 million is mainly due to budgeted inter-program recoveries not received as planned as a result of the vacancies experienced throughout the year.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The 2007 Recommended Base Budget has been adjusted through service level adjustments to reflect the actual experience for additional gapping and adjusting for one seconded position as well as increased recoveries for increased costs from capital projects and investment earnings.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

- The Office of the Chief Financial Officer 3-Year Operating Budget provides funding to ensure 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 internal and external customers. This will be accomplished by:
 - Continued development and implementation of the multi-year Financial Planning process based on the City's new governance model.
 - Continued negotiations for funding partnerships with other orders of government.
 - Complete program reviews for selected Internal Services Divisions.
 - Development of mid/long term financing strategies and policies.
 - Development of policies for the application of new municipal financial tools in accordance with the City of Toronto Act and other provincial legislation.
 - Support Strategic Asset Management and other corporate policies and processes.

The increase of \$0.331 million in the 2007 Recommended Gross Expenditures over the 2006 Approved Gross Expenditures is required to continue delivering current service levels.

Service Delivery - Challenges and Issues

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

- *Finance and Administration* will be managing services provided to the Internal Services Cluster, supporting its day to day operations of delivering quality financial and corporate services to other divisions, City Council and the public.
- *Corporate Finance Division* will be managing the following:
 - providing corporate financial policy and strategic advice through the Deputy City Manager and Chief Financial Officer to Council, its committees, the City Manager and to Divisions, Agencies, Boards and Commissions. To help protect (a) the City's financial assets through the corporate management of borrowing and investments and (b) the City's physical assets, staff and Members of Council through insurance and risk management.
 - Managing specific initiatives including new revenue and related policies, a comprehensive Capital Financing Strategy, a review of innovative and alternative capital financing tools available through the new City of Toronto Act and pending new debt and investment regulations.
 - 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.

- *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 information, analysis and recommendations to develop and implement performance based operating and capital budgets. In support of this, a dedicated resource has been committed to managing the process of facilitating and documenting consistent Program Maps (that define City Services and Activities) along with efficiency and effectiveness measures for each of the City's Divisions. The resource is also responsible for documenting the functional requirements specifications for a new Operating Budget system and multi-year budgeting process based on Program Maps, that will operationalize the Council Approved mature budget model focused on service planning and budgeting.
- *Special Projects* is primarily responsible for providing financial analysis, negotiations and advisory services in a number of major, ongoing site-specific projects including the Spadina Subway Extension, redevelopment of the West Don Land and East Bayfront, Union station and the waterfront renewal. The division is also involved in the development and administration of all activities associated with the introduction of a new Development Charges By-Law. A dedicated resource to assist in managing this initiative is included in this recommended budget.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change		FY Incremental Outlook	
			2007 Recommended Base v. 2006 Appvd. Budget		2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	13,215.5	13,452.2	236.7	1.8	390.7	(30.0)
REVENUE	3,274.7	3,483.9	209.2	6.4	0.0	0.0
NET EXP.	9,940.8	9,968.3	27.5	0.3	390.7	(30.0)
Approved Positions	122.0	122.0	0.0	0.0		
NET TARGET		9,940.8				
\$ Over / (Under) Program Target		27.5				
% Over / (Under) Program Target		0.3%				

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$9.968 million net represents a 0.3% increase over the Office of the Chief Financial Officer’s 2006 Approved Base Budget while maintaining 2006 service levels.

- The additional \$0.237 million expenditures recommended for the Program’s Base Budget is needed to fund annualized costs approved in 2006, merit and step increases, union settlement and wage increases for staff, as well as other service costs.
- The \$0.209 million increase in revenues recommended in the 2007 Base Budget is for increased inter-program recoveries for costs for service levels provided to various City Programs and capital recoveries for staff working on key priority projects.

2007 Key Cost Drivers

2007 key cost drivers include:

- Cost-of-living adjustments (COLA) that average 3% for 2007 are non-discretionary expenditures that result in additional costs of \$0.388 million.
- One additional working day in 2007 requires incremental net expenditures of \$0.048 million.
- The above costs will be partially off-set by reduction options of \$0.351 million net which include operational efficiency measures, adjustments to recoveries to reflect service levels provided, and recovery for resource costs supporting projects in the Program’s capital budget.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 Outlook net increase of \$0.391 million or 3.9% includes cost of living allowances (COLA), merit and step increases and an extra working day in 2008. The 2009 Outlook net increase of (\$0.030 million) includes merit and step increase which is reduced by one less working day in 2009. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved:						
(b) Enhanced Service Priorities - Program Initiated:						
	Capital Project - Dedicated Staff Resource	94.2	0.0	1.0		
Sub-Total Enhanced Service Priorities		94.2	0.0	1.0	0.0	0.0
(a) New Service Priorities - Council Approved:						
(b) New Service Priorities - Program Initiated:						
Sub-Total New Service Priorities		0.0	0.0	0.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		94.2	0.0	1.0	0.0	0.0

2007 Recommended Service Priorities

Enhanced Service Initiated by Program:

- **Dedicated Staff Resource for the new Development Charge By-Law Study:**

A new Financial Analyst position is recommended to assist in managing the development and implementation of a new Development Charges By-Law for the City. The By-Law requires updating to reflect new capital initiatives, including the extension of the Spadina Subway System and other major capital projects. Existing staff within the Division cannot effectively manage the requirements of the project given current workload demands. This initiative requiring funding of \$0.094 million will be funded from the Development Charges Reserve Fund. This additional resource will assist in the introduction of the new By-Law by 2008 resulting in millions of dollars of increased revenues for the City.

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	167.0	16,885.9	3,446.9	13,439.0	0.0	0.0
In-year approvals and technical adjustments	(45.0)	(3,635.4)	(172.2)	(3,463.2)		
Corporate adjustments	0.0	(35.0)	0.0	(35.0)		
2006 Approved Operating Budget	122.0	13,215.5	3,274.7	9,940.8	0.0	0.0
Prior year impacts				0.0		
Zero base items				0.0		
Economic factors		506.1	(14.4)	520.5	389.3	21.4
Adjusted Base Budget	122.0	13,721.6	3,260.3	10,461.3	389.3	21.4
Other base changes		(81.9)		(81.9)	1.4	(51.4)
Base revenue changes			60.1	(60.1)		
Recommended Service Level Adjustments:						
Service efficiencies		(21.7)		(21.7)		
Revenue adjustments			163.5	(163.5)		
Minor service impact		(122.8)		(122.8)		
Major service impact		(43.0)		(43.0)		
Total Recommended Base Adjustments	0.0	(269.4)	223.6	(493.0)	1.4	(51.4)
2007 Recommended Base Budget	122.0	13,452.2	3,483.9	9,968.3	390.7	(30.0)
2007 Program Operating Target	N/A	N/A	N/A	9,940.8	0.0	0.0
% Over (Under) Program Target				0.3%		
% Over (Under) 2006 Appvd. Budget				0.3%		

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006 \$	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
			\$	\$	\$
Insurance Reserve Fund	XR1010	17,536.0	34.7	34.7	34.7
Insurance Reserve Fund	XR1010		(1,082.5)	(1,082.5)	(1,082.5)
Total Reserve / Reserve Fund Draws / Contributions			(1,047.8)	(1,047.8)	(1,047.8)