

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 actual expenditure of \$18.386 million is \$0.376 million or 2.0% below the 2006 Approved Budget of \$18.762 million. The savings are primarily due to under-spending of office budgets by some Council offices.
- The 3-year Operating Budget provides funding for City Council to formulate the City’s strategic direction, priorities and policies.
- The 2007 Recommended Operating Budget of \$19.649 million net is \$0.888 million or 4.7% over the 2006 Approved Budget. There are no recommended new and enhanced service priorities for 2007.
 - The 2008 Outlook of \$0.580 million includes funding for COLA, an additional working day and the full year impact of the 2007 Recommended minor service level reduction.
 - The 2009 Outlook identifies a decrease of \$0.063 million due to the reversal of one working day. No adjustment for COLA is provided, as the increase is subject to future consideration.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
(In \$000s)									
GROSS EXP.	18,761.5	18,414.0	19,649.2	0.0	19,649.2	887.7	4.7	580.0	(63.2)
REVENUE	0.0	28.5	0.0	0.0	0.0	0.0	N/A	0.0	0.0
NET EXP.	18,761.5	18,385.5	19,649.2	0.0	19,649.2	887.7	4.7	580.0	(63.2)
Approved Positions	183.0	184.0	182.0	0.0	182.0	(1.0)	(0.5)	0.0	0.0
TARGET			18,761.5		18,761.5				
\$ Over / (Under) Program Target			887.7		887.7				
% Over / (Under) Program Target			4.7%		4.7%				

- The 2007 Recommended Base Budget of \$19.649 million includes the following:
 - COLA, merit and market rate adjustment increases, an additional working day in 2007 as well as the elimination of a one-time GST rebate credit.

- Service efficiencies totalling \$0.262 million include:
 - Councillors' Staff fringe benefits - \$0.147 million.
 - Council IT budget - \$0.110 million (50% reduction).
 - Community Council Hospitality budget - \$0.005 million.
- The 2007 Recommended Budget includes a minor service level adjustment of \$0.029 million in 2007 with a 2008 incremental reduction of \$0.029 million.
- Service levels to constituents for 2007, 2008 and 2009 will remain at 2006 levels.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for the City Council of \$19.649 million gross and net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Councillors’ Salaries & Benefits	5,077.2	5,077.2
Councillors’ Staff Salaries & Benefits	10,544.2	10,544.2
Councillors’ Office Budget	2,336.4	2,336.4
Councillors’ Business Travel Expenses	50.0	50.0
Councillors’ General Expenses	1,441.4	1,441.4
Integrity Commissioner’s Office	<u>200.0</u>	<u>200.0</u>
 Total Program Budget	 <u>19,649.2</u>	 <u>19,649.2</u>

2. Council establish a reserve account entitled “Council Severance Cost Reserve Account” for the purpose of providing funding for future severance costs for Council members and their staff;
3. the Council Severance Cost Reserve Account be administered by the Deputy City Manager and Chief Financial Officer;
4. Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the “Council Severance Cost Reserve Account” to schedule “1”, ‘Corporate Reserves’;
5. the Council Severance Cost Reserve Account be funded through annual contributions from the City Council Operating Budgets in the amount of \$0.175 million, beginning in 2007; and
6. the appropriate City officials be authorized and directed to take the necessary action to give effect thereto, and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

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.	17,125.7	18,761.5	18,414.0	(347.5)	(1.9)
REVENUES	20.5	0.0	28.5	28.5	N/A
NET EXP.	17,105.2	18,761.5	18,385.5	(376.0)	(2.0)
Approved Positions	183.0	183.0	184.0	1.0	0.5

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

2006 Experience

The 2006 year-end preliminary results for the City Council Approved Budget indicate a favorable variance of \$0.376 million. This under-spending is primarily due to most Council offices not spending the full office budget allocation of \$53,100. In addition, the Program received unbudgeted revenue of \$0.029 million from TTC covering the costs of 1/2 of a council staff person working on TTC activities. The actual expenditures in 2006 include a one-time payment for severance costs for Councillors and Councillors’ staff in the amount of \$0.948 million arising from the 2006 Municipal election.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The savings realized in 2006 are not reflected in the 2007 Recommended Operating Budget. There is a recommendation contained in these Analyst Notes to provide funding annually to a Reserve for the payment of severance to Councillors and their staff. The recommended amount is \$0.175 million annually to be absorbed within existing budget levels. Consequently, no savings from 2006 are being reflected in the 2007 Recommended Operating Budget for City Council.

Section B: 2007 Operating Budget Overview**3-Year Operating Budget Overview**

The City Government advocates the economic, social and environmental vitality of the City of Toronto. It sets corporate priorities and strategic direction.

City Council's 3-year objectives include:

- Advocating the City's needs with other orders of government
- Facilitating active participation of community involvement in all aspects of civic life
- Responding to and supporting the diverse needs and interests of its constituents.
- Safeguarding public assets and making efficient use of City resources.

Service Delivery – Challenges and Issues

The role of Council is to represent the public and to consider the well-being and interests of the City. City Council develops policies, determines the services to be provided to the City, ensures that policies and practices are in place to implement the decisions of Council and maintains the financial integrity of the City.

The City Council 2007 Recommended Operating Budget supports Council's role. It maintains service levels at the same level as 2006.

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.	18,761.5	19,649.2	887.7	4.7	580.0	(63.2)
REVENUE	0.0	0.0	0.0	NA	0.0	0.0
NET EXP.	18,761.5	19,649.2	887.7	4.7	580.0	(63.2)
Approved Positions	183.0	182.0	(1.0)	(0.5)	0.0	0.0
NET TARGET		18,761.5			0.0	0.0
\$ Over / (Under) Program Target		887.7			580.0	(63.2)
% Over / (Under) Program Target		4.7%			3.1%	(0.3%)

2007 Recommended Base Budget

- The 2007 Recommended Base Budget of \$19.649 million net represents a 4.7% increase over City Council’s 2006 Approved Budget in order to maintain 2006 service levels.
- The 2007 recommended Base Budget includes the following efficiencies: reduction of 50% of funding for computer hardware and software in the amount of \$0.110 million; reduction of fringe benefits in the amount of \$0.147 million; reduction of the Community Council hospitality budget in the amount of \$0.005 million and absorption of inflationary increases in non-salary expenses.
- The 2007 Recommended Budget includes a (confidential) minor service level adjustment for savings of \$0.029 million in 2007 with an incremental reduction of \$0.029 million in 2008.

2007 Key Cost Drivers

The 2007 Recommended Base Budget increase of \$0.888 million is driven by the following factors:

- COLA at 3.25% totalling \$0.282 million
- One-time adjustments for Councillors salaries totalling \$0.303 million
- Fringe benefit adjustments, based on 2006 actual experience and corporate direction of \$0.248 million

These increases have been partly offset by:

- Service efficiencies totaling \$0.262 million, and
- A minor service level reduction of \$0.029 million.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 Outlook includes an incremental increase of \$0.580 million or 2.9% to fund salary cost increases due to COLA adjustments, at an estimated 2%, as it is subject to 2008 Consumer Price Index calculations and at 2.44% for staff, and an additional day's pay. The 2008 Outlook also includes an incremental decrease of \$0.029 million as a result of the 2007 Recommended Minor Service Level adjustment. The 2009 Outlook includes no provision for COLA, as the increase is subject to future considerations. However, an incremental reduction of \$0.063 million or 0.3% is included due to the reversal of funding for the extra one day pay in 2008.

Issues for Discussion

Issues Referred to 2007 Operating Budget Process

Funding for Severance Costs for Councillors' and Councillors' Staff and the Establishment of a Reserve

Council at its meeting of March 5, 8, 7 and 8, 2007 approved recommendation #1 from the report from the Deputy City Manager and Chief Financial Officer entitled 'Funding for Severance Costs for Councillors' and Councillors' Staff and the Establishment of a Reserve'. This recommendation provided funding for 2006 severance costs resulting from the election, to be paid from projected underspending in City Council's 2006 Approved Operating Budget. The total cost of \$0.948 million was absorbed within the 2006 City Council Approved Budget.

The report also recommended a funding strategy for these expenses on an on-going basis. The report recommended that a reserve be established and that an amount of \$0.175 million be provided annually to a Reserve Account for future severance costs. This recommendation and the recommendations to establish a reserve account were referred to Budget Committee for consideration with the 2007 Operating Budget process.

The following recommendations referred from that report are provided below:

2. Council establish a reserve account entitled "Council Severance Cost Reserve Account" for the purpose of providing funding for future severance costs for Council members and their staff;
3. the Council Severance Cost Reserve Account be administered by the Deputy City Manager and Chief Financial Officer;
4. Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the "Council Severance Cost Reserve Account" to schedule "1", 'Corporate Reserves';
5. the Council Severance Cost Reserve Account be funded through annual contributions from the City Council Operating Budgets in the amount of \$0.175 million, beginning in 2007; and
6. appropriate City officials be authorized and directed to take the necessary action to give effect thereto, and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

Approval of the creation of the reserve account to receive an annual contribution of \$0.175 million starting in 2007, to pay future severance costs, would require an annual contribution of \$0.175 million from the city Council's 2007 Recommended Budget and the future budgets. It is anticipated that this annual contribution will result in no pressure on the City Council's Operating budgets as they are traditionally under-spent. It is recommended that the Budget Committee adopts the recommendations contained in the City Manager and Chief Financial Officer's report.

Code of Conduct Complaints

At its meeting of February 5, 6 and 7, City Council approved the report from the Integrity Commissioner entitled 'Amendments to the Code of Conduct Complaint Protocol under Members Code of Conduct'. One of the recommendations in that report was to increase the limit for a claim for legal and associated costs for Councillors from \$5,000 to \$20,000 and for councillors to be able to claim for legal costs for judicial review of the Integrity Commissioner decisions. In consultation with the Deputy City Manager and Chief Financial Officer, it was understood that any funding requirements as a result of the report would be absorbed within the City Council 2007 Operating Budget. Actual costs during 2007, if any, will need to be taken into account when submitting the City Council 2008 Operating Budget.

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	183.0	18,791.1	0.0	18,791.1	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments		(29.6)		(29.6)		
2006 Approved Operating Budget	183.0	18,761.5	0.0	18,761.5	0.0	0.0
Prior year impacts		90.0		90.0		
Zero base items						
Economic factors		982.8		982.8	609.0	(63.2)
Adjusted Base Budget	183.0	19,834.3	0.0	19,834.3	609.0	(63.2)
Other base changes		(156.1)		(156.1)	0.0	0.0
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact	(1.0)	(29.0)		(29.0)	(29.0)	0.0
Major service impact						
Total Recommended Base Adjustments	(1.0)	(185.1)	0.0	(185.1)	(29.0)	0.0
2007 Recommended Base Budget	182.0	19,649.2	0.0	19,649.2	580.0	(63.2)
2007 Program Operating Target	N/A	N/A	N/A	18,761.5	0.0	0.0
% Over (Under) Program Target				4.7%	3.1%	(0.3%)
% Over (Under) 2006 Appvd. Budget				4.7%	3.1%	(0.3%)

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 2006 \$	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
			\$	\$	\$
Government Relations Reserve	XQ0009	0.0	37.0	37.0	37.0
Insurance Reserve Funds	XR1010	17,536.0	143.8	143.8	143.8
Total Reserve / Reserve Fund Draws / Contributions			180.8	180.8	180.8