

Analyst Briefing Notes
Budget Committee
(March 26, 2007)

2007 OPERATING BUDGET

Executive Summary 2

Recommendations 4

Section A: 2006 Budget Variance Analysis 5

2006 Experience 5

Impact of 2006 Operating Variance on 2007 Recommended Budget 5

Section B: 2007 Operating Budget Overview.....6

3-Year Operating Budget Overview.....6

Service Delivery - Challenges and Issues.....6

Mayor’s MandateN/A

Section C: 2007 Recommended Base Budget8

2007 Recommended Base Budget8

2007 Key Cost Drivers8

Section D: 2007 Recommended Service Priorities10

Summary of 2007 New / Enhanced Service Priorities10

Issues for discussion.....N/A

2007 Operating Budget IssuesN/A

Issues Referred to 2007 Operating Budget ProcessN/A

Appendices:

Appendix 1: Summary of Recommended Base Budget Changes from 2006 Approved Budget. 12

Appendix 2: Summary of Service Level Adjustments13-18

Appendix 3: Summary of 2007 Recommended New/Enhanced Service Priorities..... 19-23

Appendix 4: Inflows/Outflows to/from Reserves and Reserve Funds..... 24

Contacts: Judy Broughton, Manager, Financial Planning Division
 Tel: (416) 392-8393
 Ron Budhu, Senior Financial Planning Analyst
 Tel: (416) 397-4559

2007 OPERATING BUDGET

Executive Summary

- The 2006 preliminary year-end net expenditure of \$30.408 million is \$1.129 million below the 2006 Approved Budget due mainly to realized savings from hiring delays, under-spending in overtime and casual staff as well as a one-time non-recurring revenue.
 - These savings will not continue in 2007.
- The 3-Year Operating Budget is consistent with the strategic initiatives outlined in the Office of the Treasurer’s Business Plan and provides funding to improve service and to strengthen internal controls. Major initiatives started in late 2006 and through 2007 will be completed during the 2008 and 2009 period. The results of some of these initiatives are reflected in this recommended budget:
 - Program review of services resulted in \$0.238 million in savings with the reduction in overtime and casual staff and the reduction of 2 vacant administrative positions. These service adjustments will result in reduced customer services provided to client divisions and vendors.
 - Continued administration of the Early Payment Vendor Discount Program with additional savings of \$0.078 million.
- The 2007 Recommended Operating Budget of \$31.959 million net is \$0.422 million or 1.3% over the 2006 Approved Budget of \$31.537 million net and the 2007 target.

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.	63,157.7	64,735.8	65,528.0	1,166.3	66,694.3	3,536.6	5.6	1,902.4	1,010.1
REVENUE	31,620.8	34,327.7	33,584.6	1,150.8	34,735.4	3,114.6	9.8	(496.0)	0.0
NET EXP.	31,536.9	30,408.1	31,943.4	15.5	31,958.9	422.0	1.3	2,398.4	1,010.1
Approved Positions	731.0	689.0	726.0	19.0	745.0	14.0	1.9		
TARGET			31,536.9		31,536.9				
\$ Over / (Under) Program Target			406.5		422.0				
% Over / (Under) Program Target			1.3%		1.3%				

- The 2007 Recommended Operating Budget of \$31.959 million net is comprised of base funding of \$31.943 million and New/Enhanced Service Priorities of \$0.016 million net which includes 19 new positions.
 - The 2008 Outlook net increase of \$2.398 million or 7.5% includes ongoing cost of living allowance (COLA), merit and step increases and an extra working day in 2008. The 2009 Outlook net increase of \$1.010 million or 2.9% includes merit and step and one less working day in 2009 for salaries and benefits. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.
- The 2007 Recommended Operating Budget of \$31.959 million net is comprised of Base funding of \$31.943 million net.
 - The 2007 Key Cost drivers include pressures of \$2,531.8 million resulting from COLA, merit and step increases, an additional working day in 2007 for union staff as well as inflationary increases of \$0.225 million for contracted materials/supplies and services.
 - Recommended adjustments of \$0.566 million include absorption of the inflationary increases and efficiencies as well as reduction in overtime and casual staff and the reduction of 2 vacant administrative positions.
 - Recommended revenue changes include a new Council approved user fee, which has been in effect since January 1, 2007, to transfer overdue water bill amounts to the tax roll. This will generate \$0.910 million. In addition, increased commodity tax revenues of \$0.115 million have been included.
- The 2007 Recommended Budget includes Enhanced Services of \$0.803 million gross and \$0.016 million net, with no net incremental impact on future years, to improve efficiency in the Purchasing and Materials Management Division. These include the addition of 4 full time temporary positions to assist on capital projects in Accounting Services and 10 temporary in-house meter reading staff due to discontinuation of contracted meter reading staff.
- The 2007 Recommended Budget also includes New Service Priorities totalling \$0.363 million gross and zero net with 5 full time positions to implement Council recommendations to corporately manage warehouse inventories
- The 2007 Recommended Base Budget provides funding to maintain the same level of service as in 2006. The Office of the Treasurer conducted a thorough review of the expenditures and revenues and identified achievable options resulting in no 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 Treasurer of \$66.694 million gross and \$31.959 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Pension, Payroll and Employee Benefits	12,032.7	10,092.3
Purchasing & Materials Management	8,924.2	6,662.5
Accounting Services	11,738.9	8,837.4
Revenue Services	33,998.5	6,366.7
	<hr/>	<hr/>
Total Program Budget	<u>66,694.3</u>	<u>31,958.9</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.	61,159.0	63,157.7	64,735.8	1,578.1	2.5
REVENUES	31,876.6	31,620.8	34,327.7	2,706.9	8.6
NET EXP.	29,282.4	31,536.9	30,408.1	(1,128.8)	(3.6)
Approved Positions	724.0	731.0	689.0	(42.0)	(5.7)

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

2006 Experience

The Office of the Treasurer has reported a preliminary year-end net favourable variance of \$1.129 million or 3.6% of the 2006 Approved Operating Budget.

The net favourable variances are attributed to:

- Delays in hiring.
- Reduced requirements for overtime and casual staff (\$0.200 million) and one-time non-salary discretionary savings of \$0.300 million for printing, supplies and contracted services.
- Commodity tax recoveries are administered through Accounting Services. These recoveries are recorded as revenues in Accounting Services but are transferred out to Program areas through contributions and transfers. Unbudgeted tax recoveries of \$3.472 million have resulted in offsetting gross expenditures and gross revenue variances, resulting in no impact to the Program's net variance.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The savings realized in 2006 are not expected to continue in 2007 as staff are now in place and discretionary savings have been accounted for in the efficiency reductions recommended in this budget.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

- The strategic direction of the Office of the Treasurer over the next three years is to improve service levels provided to its internal and external customers and to strengthen internal controls. This will be accomplished by:
 - Implementing a harmonized sick leave plan for management and non-union employees.
 - Implementing a Fixed Area Network project in partnership with Toronto Water to enhance meter reading and reduce errors and complaints. Included in the New Priorities of this budget is a recommendation to hire new in-house temporary staff to read meters in the former municipalities of Scarborough and York until this project is operational in these locations.
 - Complete program review of Accounting Services.
 - For its external customers, the implementation of the Document Management System in Revenue Services and Accounts Payable to improve the response time to taxpayer, water customer and vendor inquiries.
 - Strengthening the internal controls in Accounting Services with continuous improvement in vendor payment processing.
 - Improve the service levels provided to its internal and external customers by implementing the Purchasing and Materials Management Division Warehouse and Stores Rationalization recommendations through the capital budget and to begin the implementation of the Fixed Asset project to meet the Public Service Accounting Body (PSAB) accounting requirements.

The 2008 Outlook net increase of \$2,398.4 million or 7.5% over 2007 net recommended budget and the 2009 Outlook net increase of \$1,010.1 million or 2.9% over the 2008 Outlook represents increased personnel costs while maintaining the 2007 service levels.

Service Delivery - Challenges and Issues

The Office of the Treasurer has identified emerging challenges and opportunities over the 3-year period. To improve services and to strengthen internal controls, the 2007 Recommended Budget includes the following:

- The addition of the 5 new full time positions to implement the Warehouse and Stores Rationalization recommendations.
- Continued administration of the Early Payment Vendor Discount Program which has achieved approximately \$0.800 million in savings since 2003 with additional revenues of \$0.078 million in 2007

The main challenge for 2007 and beyond will be the completion of four large service improvement capital projects:

- Work with Toronto Water on the issuance and evaluation of a Request for Proposal for the Water Meter Replacement and Fixed Area Network Meter Reading project. Prior to this system becoming operational, 10 additional in-house meter reading staff will be hired effective April 1, 2007.
- Participation in the Document Workflow Project which will process more information electronically and significantly reduce paper consumption and improve payment cycles.
- Development of a Capital (Fixed) Asset Accounting system to meet new financial reporting requirements.
- Working with Corporate I & T and Financial Planning Division on the upgrade and improvements to the City's financial information and planning system (SAP).

In addition, the Program has also identified the following challenges:

- Implementation of new benefit plans as a result of Bill 211- the end of mandatory retirement.
 - Implementation of the e-procurement feasibility studies recommendations.
 - Implementation of the downloading of the Call Documents Project from the City's website.
 - Continued work with Court Services on the development of an Alternative Dispute Resolution Process (ADR) for parking tags processing.
- .

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.	63,157.7	65,528.0	2,370.3	3.8	1,882.4	1,010.1
REVENUE	31,620.8	33,584.6	1,963.8	6.2	(516.0)	0.0
NET EXP.	31,536.9	31,943.4	406.5	1.3	2,398.4	1,010.1
Approved Positions	731.0	726.0	(5.0)	(0.7)		
NET TARGET		31,536.9				
\$ Over / (Under) Program Target		406.5				
% Over / (Under) Program Target		1.3%				

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$31.943 million net represents a 1.3% increase over the Office of the Treasurer’s 2006 Approved Base Budget while maintaining 2006 service levels.

- The additional \$2.370 million expenditures recommended for this Program’s Base Budget is needed to fund annualizations, merit and step increases, union settlements and wage increases for exempt staff, as well as other base changes.
- The \$1.964 million increase in revenues recommended in the 2007 Recommended Base Budget represents increased inter-program recoveries of salary and benefit costs for services provided, the new Council approved user fee to transfer overdue water bills to the tax roll and salary recoveries for staff working on capital projects.

2007 Key Cost Drivers

The 2007 Recommended Base Budget is driven by the following key cost drivers:

- To ensure that existing service levels are maintained, increases of \$1.634 million are required for Cost of Living Adjustments (COLA) and \$0.897 million for merit and step increases and additional one day salary costs in 2007; and inflationary increases of \$0.225 million for contracted materials/supplies and services.
- The above costs will be partially off-set by recoveries from capital projects and increases to inter-program recoveries.

- Operational efficiencies will enable a reduction in overtime, casual and summer staff and an administrative position. These will have an impact on the services provided by the Accounting Division. As a result, vendor complaints will be increased as timeframes to respond to issues during peak periods will be slower. This will result in missed deadlines and decreasing the current trend of paying 88% of vendors within 60 days to 85%.
- Implementing the Council approved new user fee for transferring overdue water bills to the tax roll for collection purposes will partially offset the increased Program costs.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 and 2009 Outlook maintains the existing 2007 service levels. The 2008 net incremental impact of \$2.398 million or 7.5% over 2007 Recommended Budget includes a 2.5% cost of living increase in the amount of \$1.256 million, merit and step increase of \$0.930 million and an additional day of salary and benefit costs of \$0.212 million. The 2009 net incremental impact of \$1.010 million or 2.9% over the 2008 Outlook includes \$1.194 million for merit and step increases which is reduced by one day for salaries and benefits in 2009 in the amount of \$0.184 million. 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:						
1	Hire additional in-house meter reading staff	251.5	0.0	10.0		
2	Temporary positions to assist capital project resource requirements	444.0	0.0	4.0		
4	Additional Legal Resources required for the assessment unit	92.0	0.0			
5	Replace part time buyer position with full time Support Assistant	15.5	15.5			
Sub-Total Enhanced Service Priorities		803.0	15.5	14.0	0.0	0.0
(a) New Service Priorities - Council Approved:						
(b) New Service Priorities - Program Initiated:						
3	Implementation of Warehouse/Stores Rationalization Project	363.3	0.0	5.0		
Sub-Total New Service Priorities		363.3	0.0	5.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		1,166.3	15.5	19.0	0.0	0.0

2007 Recommended Service Priorities

Enhanced Service Priorities – Program Initiated:

- Hire additional in-house meter reading staff:**

Beginning April 1, 2007 the City will be responsible for reading water meters as a result of new legislation. This task was previously contracted out by Toronto Hydro. Revenue Services is hiring 10 additional in-house meter reading staff on a temporary basis at a cost of \$0.252 million gross and zero net (recovered from Toronto Water) to read water meters in the former municipalities of Scarborough and York as the current meter reading arrangement between the City of Toronto,

Toronto Hydro and the contracted meter reading vendor will be dissolved March 31, 2007. This temporary staffing requirement will end with the implementation of the Fixed Area Network Meter Reading project.

- **Temporary positions to assist in capital project resource requirements:**

Funding of \$0.444 million gross and zero net is recommended to fund 4 temporary positions to backfill current staff who will be redirected to work on capital projects. These positions will be funded from the SAP Archiving, SAP Upgrade and Business Integration projects in the Financial Services 2007 Approved Capital Budget. These temporary staff will allow existing staff the opportunity to learn and retain knowledge to support the capital projects instead of using consultants.

- **Additional legal resource required for the Assessment Analysis and Review Unit:**

An additional solicitor is required in 2007 for the Revenue Services' Tax Assessment Unit to prepare and defend appeals before the Assessment Review Board at a cost of \$0.092 million gross fully recovered from the Non-Program Tax Deficiency budget. By increasing staff, the City will realize additional supplementary revenues from corrections in assessments and tax classifications. One solicitor was added in 2006 based on one of the recommendations in the report entitled "Additional Staff Resources to Manage Assessment and Taxation Issues" adopted by City Council on December 5, 6 and 7, 2005.

- **Replace part time buyer position with full time Support Assistant:**

The Purchasing and Materials Management Division will delete a current 50% funded position and replace it with a full time permanent position at an increased net cost of \$0.016 million. Buyer positions have been reduced since 2001 and as such the Division has been unable to fill the vacant 50% buyer position due to the inability to recruit qualified personnel on a part time basis. The Division has backfilled this position with a temporary Support Assistant to assist with the workload demands which have increased significantly with no additional staff.

Recommended New Service Priorities

New Service Priorities – Program Initiated:

- **Implementation of Warehouse/Stores Rationalization Project:**

Funding of \$0.363 million gross and zero net (recovered from Programs involved in this rationalization project) is recommended for 5 full time positions to implement and manage warehouse inventories. Based on the Auditor General's operational review, a number of common deficiencies (consolidation of purchases for volume discounts and a materials management and inventory control program) amongst several Divisions were identified. Implementation of these recommendations will correct these deficiencies and provide compliance with corporate purchasing policies. As a result of this project, the Purchasing Division will be managing an estimated additional \$7.500 million of inventory, taking advantage of volume discounts due to the consolidation of purchases.

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	732.0	63,152.3	32,290.0	30,862.3	0.0	0.0
In-year approvals and technical adjustments	(1.0)		(669.2)	669.2		
Corporate adjustments	0.0	5.4	0.0	5.4		
2006 Approved Operating Budget	731.0	63,157.7	31,620.8	31,536.9	0.0	0.0
Prior year impacts		(3.3)	(3.3)	0.0		
Zero base items				0.0		
Economic factors		2,557.8	0.0	2,557.8	2,186.0	1194.2
Adjusted Base Budget	731.0	65,712.2	31,617.5	34,094.7	2,186.0	1,194.2
Other base changes	(3.0)	380.8	845.8	(465.0)	212.4	(184.1)
Base revenue changes	0.0			0.0		
Recommended Service Level Adjustments:						
Service efficiencies		(327.8)		(327.8)		
Revenue adjustments			1,121.3	(1,121.3)		
Minor service impact	(2.0)	(237.2)		(237.2)		
Major service impact				0.0		
Total Recommended Base Adjustments	(5.0)	(184.2)	1,967.1	(2,151.3)	212.4	(184.1)
2007 Recommended Base Budget	726.0	65,528.0	33,584.6	31,943.4	2,398.4	1,010.1
2007 Program Operating Target	N/A	N/A	N/A	31,536.9	0.0	0.0
% Over (Under) Program Target				1.3%	7.6%	3.20%
% Over (Under) 2006 Appvd. Budget				1.3%	7.6%	3.20%

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	116.7	116.7	116.7
Vehicle Reserve	XQ1600	193.0	97.9	97.9	97.9
Total Reserve / Reserve Fund Draws / Contributions		17,729.0	214.6	214.6	214.6