

**Special Executive Committee on Program Reviews  
& Service Priorities  
September 19, 2011  
Joseph P. Pennachetti, City Manager**

To review the City Manager's summary in which he outlines the difficult decisions facing Committee and Council related to the Service Review Program and the 2012 Budget, see page 25.

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## **Introduction**

- To begin and to clarify for all as part of the background, City of Toronto's opening 2012 operating pressure is estimated at \$774 million. This is before any application of tax or revenue increases. However, I must reiterate that the reliance on one-time revenues – either reserves or additional surpluses is no longer sustainable. That is why my directive was for a 10% reduction from ALL divisions and agencies, boards & commissions.
- To address the 2012 Operating Pressure and the Capital Program funding gap, a multi-year approach is necessary
- As a result, on April 13, 2011, Council adopted the City Manager's report that recommended completion of a Service Review Program during 2011 in preparation for the 2012 Budget

I will speak to my three reports to be discussed today (Core Service Review, the Voluntary Separation program and the User Fee Review policy). These reports are the first key step in the 2012 budget & financial planning process.

The Service Review Program was initiated in preparation for the 2012 budget and the multi-year financial and service planning budget process. There are three key components of the service review program and timelines are outlined on slide 3 and include:

- The Core Service Review, which is now complete and will be considered by the executive committee today
- Service Efficiency Studies for a number of divisions, agencies and cross-corporate functions, which are underway as part of a regular budget process review. Results will be included in the 2012 operating budget in November.
- And the User Fee Review, which is underway. A report on the user fee Policy is presented to executive committee today. A final more detailed report on the user fee review will be submitted for Council approval in November.

Now a brief overview of the Key Decisions for Executive Cttee & Council

- The recommendations before you in my report are important to give direction to staff in preparing the 2012 budget. While I believe all recommendations are important to service and financial planning, the key decisions for Executive Committee and Council are related to recommendations 1, 2, 3, 14 & 15.
- Firstly, we need to confirm core / non core services and elimination or divestment opportunities in
  - ▶ Recommendations 1, 3
- Secondly, we need to refer additional reduction actions to programs for inclusion in budget reduction proposals through
  - ▶ Recommendation 2
- And very importantly, I recommend referral of other efficiency related matters to me for implementation in 2012 and future years' budget processes or to report to Council where specific authorities are required in
  - ▶ Recommendations 14, 15

## **Key Decisions for Executive Cttee & Council (cont.)**

- Staff require direction on these matters now in order to:
  - ▶ Complete 10% budget reduction proposals and
  - ▶ Approve voluntary separation program applications in order to minimize involuntary staff reductions
- Decisions will also provide more certainty to staff about 2012 services and budget direction and the impact of the service changes

## **Now to speak more specifically to the Core Service Review Report before Executive Committee:**

- In light of the City's financial pressures, the core service review will set the foundation and reaffirm the services Toronto's government should deliver going forward into 2012 and beyond
- Decisions need to be made about which services go beyond what municipal governments generally provide and could be eliminated or divested as they are no longer affordable given today's budgetary circumstances.
- Again, a reminder that Council has directed me to respond to the KPMG Core Service Review and their nearly 200 opportunities for cost reductions.
- The KPMG analysis has ranked about 90% of our services as core (essential) and 10% as non-core or discretionary
- Importantly, KPMG has concluded that 85% of City services are being delivered at or below standard and 15% above standard compared to other Ontario municipalities

**Core Service Review – Final Report to Executive** (cont.)

- In developing this report, I have carefully reviewed the KPMG opportunities relative to core versus discretionary services. At the same time, my recommendations are in the context of input from the public consultation and deputations, the past priorities of Toronto's government, current financial pressures and the implications of the changes outlined in the report.

- KPMG's Identified Opportunities include:
  - 69 opportunities to eliminate, divest or reduce services
  - and 119 opportunities to conduct further review to achieve efficiencies and cost savings
  
- So, I have taken the nearly 200 opportunities and outlined my recommendations to eliminate, divest or reduce services and to achieve efficiencies and cost savings and I have identified them by program for Committee and Council consideration.



## **Report recommendations**

- A number of services have been recommended for elimination or reduction based on core service criteria including where an enhanced service is provided that is not delivered in most other municipalities, where services are more appropriately delivered by another organization, or where they are the responsibility of the provincial government. (recommendation 1). Examples include:
  - Reduce the number of the 100 % City funded child care spaces over the next 1.5 years through attrition due to lack of provincial funding and the depletion of the reserve fund
  - Transportation – eliminate current windrow clearing, but implement a plan for clearing windrows and sidewalks for seniors
  - SWM – elimination of 4 free garbage tags based on usage and the original plan to transition to elimination with implementation
- I am requesting that we refer several services and activities to staff or agency boards for consideration as part of their general program reduction to meet the 2012 budget reduction target (recommendation 2).

## **Report recommendations** (cont)

- Examples include:
  - Asking Public Library to:
    - Review hours of operations in 2012
    - Study the rationalizing of the number of libraries, but with no recommended closures at this time, pending the more detailed study which may include the optimization of other City Services in Library facilities in the longer term. (Separate recommendation related to maximization of City facility assets)
  
  - Asking TTC to:
    - Reconsider the service improvements under the ridership growth strategy
  
- In addition, where specific service reductions are not identified, the intent is that All City services and agencies will meet the 10 percent budget reduction target established for the 2012 operating budget.

## **Report recommendations** (cont)

- The report recommends the divestment of some City agencies and the approval of Council to issue a request for expression of interest to determine the options for contracting out operations and if not feasible the sale of the Toronto Zoo, the City's three major theatres and Heritage Toronto. (recommendation 3)

## **Report recommendations** (cont)

- Recommendations 4-7 direct divisions or agency boards, to develop a plan to enhance their financial condition and report back on these matters.
- Recommendation 8 refers opportunities that are longer term to the City manager to undertake broad service and organizational studies.
  - Importantly, I am asking Fire & EMS to consider new service delivery models and report back as soon as possible, for implementation in 2013
- (Recommendations 9 – 13). Outline a number of issues that have been identified for further study and policy reports. KPMG identified many opportunities for further efficiencies and these have been referred back to staff for consideration and incorporation as part of budgetary cost savings in 2012 and future years.

**Report recommendations** (cont)

- And importantly, recommendation 14 refers the efficiency-related opportunities to the City Manager for consideration and implementation through the 2012, 2013 and 2014 operating budget.
- These service actions include a total of 119 further areas for detailed efficiency review across the corporation

- Recommendation 15 refers efficiency –related motions from Standing Committees to the City Manager for consideration, and implementation through the 2012, 2013 and 2014 Operating Budgets, or to report to Council where specific authorities are required and
- Recommendation 16 provides authority to the City Manager to undertake actions necessary to implement Recommendations 1, 14, and 15, for example
- To begin the process to prepare further reports to Council for possible divestment of services or assets upon approval of previous recommendations.
- To ensure all collective agreements and other policies and obligations are followed during implementation
- To be clear, any agreements related to divestiture of assets etc. must and will come back to Council for first approval.

## **Now in regard to the financial impact**

- With Council approval of these service eliminations and reductions and the implementation of the efficiencies identified by KPMG, the total savings are estimated to be approximately \$200-300 million over the period 2012-2014.
- For 2012, the estimated savings from service eliminations, reductions and KPMG identified efficiencies being actively considered by staff, are projected at approximately \$100 million and will contribute to reaching the 2012 budget target.
- I must reiterate that over and above KPMG related actions from this report, staff continue to work on other efficiencies and service changes in order to meet the 2012 Budget target of a 10% reduction inclusive of the Voluntary Separation Program and other initiatives.
- Finally, Capital expenditure reductions as a result of adopting the recommendations in this report could total approximately \$132 million gross in the 10-year capital plan.

## **Next steps – Committee and Council process**

Again, a reminder as to the next steps in the process:

- Once Council has made decisions on the core service review, staff will submit business cases as part of their 2012 budget submissions, which will outline more accurate and detailed budgetary savings of these actions.



Now a quick overview of the **Voluntary Separation Program**

- A reminder that I announced this program on July 12, 2011
- Permanent Employees under my directive are eligible except L3888 members (firefighters)
- The closing date for applications was Friday, September 9, 2011
- My report recommendations are before you today and Council approval of the new VSP program is also recommended at the special Council meeting on September 26/27

## **Voluntary Separation Program**

- As of Friday, September 9, more than 1100 members of the Toronto public service have applied to participate in the voluntary separation program.
- Applicants came from across the organization with 88 percent in bargaining unit positions and 12 percent from management positions.
- A key requirement of the program is that an equivalent position be permanently deleted for every separation approved. This program, if Council approves, will result in a corporate-wide staff reduction in 2012. However, some applications will not be accepted if deemed essential and required to meet core service delivery.
- Assuming about 700 applicants are approved, the one-time cost of the voluntary separation program is estimated at \$41 million, which can be funded from projected 2011 budget savings and/or the tax stabilization reserve (which includes additional 2010 budgetary savings). The permanent base (gross) budget reduction for 2012 would total about \$59 million and would assist in meeting our 2012 budget savings.

- **Voluntary Separation Program** (cont.)
- That summarizes the VSP
- I will now turn the presentation over to the DCM and CFO, Cam Weldon. Cam is the lead on the key report related to the User Fee Review, as part of the Service Review initiative.
- Following Cam's summary of this next report, I will conclude our remarks with a brief summary for the Committee

## **User fee review**

(DCM & CFO, Cam Weldon)

- The City offers a broad range of services financed in whole or in part by over 3,700 user fees including TTC fares, recreation program fees, water consumption charges, admission fees, permits and licence fees.
- User fee revenues total \$2.8 billion, that finances 26% of the consolidated operating budget.
- The user fee policy report before you today asks Council to approve a user fee policy and framework that will ensure consistency in establishing and administering the City's User Fee program.

## **User fee review (cont.)**

- Two key principles of the recommended policy are that user fees should be used to finance those City services that provide direct benefit(s) to specific users and wherever possible, user fees should be set to recover the full cost of those services. However, full cost recovery is not always appropriate.
- The user fee policy recognizes the need to protect citizens who, through inability to pay, would be denied access to services. Exceptions to full cost recovery and general criteria for waiving fees in accordance with City policy objectives have been included in the guiding principles of the policy.
- A separate report will be provided later in the fall which will detail the findings of the review of the existing user fee program and administration, and will make recommendations on the status of existing user fees as well as identifying any opportunity for new fees.

## User fee review (cont.)

- This chart provides a simple overview of what choices can be made in setting user fees.
- At the top, for services that generally benefit the entire community, and are publicly accessible (i.e., not possible to exclude someone from receiving the service), it is appropriate to fund the service from property tax (Police protection would be a good example).
- At the bottom of the scale, for services that benefit the individual only, it would be appropriate to recover 100% of the service cost from a user fee to that individual (building permits and water consumption are examples where this is occurring now)
- In between these two extremes are services to individuals that have a broader community benefit as well. These services should be funded by a mix of user fees and property taxes (recreation programs and transit are examples where this can occur).

## **User fee review (cont.)**

- The next series of slides lay out the principles in developing user fees. Some of our existing fees have generally followed these principles, others have not.
- Approving this policy will promote a transparent, equitable and accountable approach for all our fees.
- The starting point is determining the full cost of the service provided – direct costs, indirect costs and the cost of capital. Factors such as ability to pay, promotion of the service as a broader public good, or market forces may determine that the user fee be set at less than full cost.
- We are recommending that user fees be adjusted annually for inflation to keep pace with the cost of delivering the service.
- We are also recommending that a comprehensive review of user fees be done every four years, i.e., once within the term of each Council.

## **User fee review (cont.)**

- We are also recommending that the revenues be allocated to the programs supporting the service, and where capital costs are recovered in the fee, this portion of the revenue should go to a capital reserve fund.
- We are also recommending principles around the transparency in setting of user fees and around significant change to user fees
- This ends my portion of the presentation. I will now turn it back to the City Manager.



## Summary (City Manager Joe Pennachetti)

- In summary, I know full well that this is a most difficult time for the residents of Toronto as well as the Toronto public service. I am fully aware of the difficult decisions that Committee and Council must make in the coming months related to the Service Review and the 2012 Budget.
- As a result, the recommendations that I am tabling to committee and Council for consideration have taken into account, the standing committee recommendations and importantly public input at both the May/June public meetings and the depositions to the July committees - all as input related to the KPMG opportunities.
- We heard clearly from Toronto residents that they cherish our services. However, at the same time, as all are aware, we have a massive projected 2012 budgetary deficit that must be addressed.
- My objective in the recommendations to Council is to balance both these opposing realities.

## **Summary** (cont'd)

- I firmly believe that with the major focus on efficiencies and service level changes, my recommendations related to the Service Review minimizes elimination of services and I believe that we will meet both objectives of retaining a relatively high level of service to the residents and businesses of Toronto, while at the same time setting the foundation for an achievable and sustainable operating budget to finance our services in 2012 and beyond.