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2016 OPERATING BUDGET BRIEFING NOTE

Inflationary Increases To Base Budget

Issue/Background:

Budget Committee requested the Deputy City Manager and Chief Financial Officer to provide a budget briefing note on the areas of the budget where inflation might be automatically included in the base operating budget (for example, Student Nutrition Programs and Community Partnership and Investment Program grants).

The Briefing Note explains all the non-salary inflationary increases on base budgets, as well as the current process in the development of the multi-year 2016 Operating Budget and 2017 and 2018 Plans. The salary and associated costs increases will depend on the impending labour negotiation results.

The 2016 Operating Budget was developed on the basis of services and service levels approved by City Council in the prior year that form the starting point for 2016 budget preparation. Based on this approach, a key element of the 2016 budget process is to determine inflationary factors that should be applied against 2015 Approved Budget expenditures in order to estimate the 2016 cost of providing the previous year's approved services and service levels.

The City consumes a wide range of commodities that have varying inflationary factors. Since the inflationary factors for some goods and services are more volatile than others, a single rate of inflation cannot be applied to all commodities purchased by the City. Furthermore, the City provides a multitude of varying services and programs, each with very different input costs. As a result, the City uses a variety of standard commodity-specific inflationary price factors that more accurately reflect the changing prices of specific goods and services that it consumes, and also reflect the very different cost structure faced by each City Division, Agency, and Service.

Key Points:

- The inflationary increases used in producing the 2016 Preliminary Operating Base Budget and the 2017 and 2018 Plans are listed in Appendix 1 below.
- To streamline the process, the 2016 baseline budget was adjusted corporately to include budgetary impacts from inflationary adjustments to specific inflationary factors only, such items as hydro (general), gas, diesel, steam heating, natural gas, water, and chilled water, and a salary and benefits projection.
- Inflationary increases were also adjusted at the City Program and Agency level to reflect specific requirements. In 2016, Divisions and Agencies were required to manage/offset their own pressures as well as make a contribution towards mitigating corporate pressures. The 2016 Net

Operating Budget targets for all City Programs and Agencies was equivalent to a 1% decrease from the 2015 Approved Net Operating Budget. However, the salary increase is subject to the result of labour negotiations with Local 79 and Local 416. As a result of base budget savings submitted by the Divisions or Administrative Review, the actual non-salary budget increase is only at around 1% from 2015.

- Contracts with fixed prices over their term are not adjusted for inflation and are budgeted at the tendered contract prices. Where the contract specifies the 2016 price or a specific escalation clause, such expenditures are adjusted to reflect that specified increase in the 2016 Preliminary Operating Budget.

Base Budget Increase in 2016:

- Based on the forecast provided by The Conference Board of Canada, Toronto's CPI estimate for 2016 is 2.18%. Although this forecast was provided to the City's divisions and agencies in the guideline for non-specific inflation before the budget process started, it is important to note that most City Programs' and Agencies' 2016 Preliminary Operating Budgets are below the 1.3% general rate of inflation for 2015, and many are below a 0% increase. Therefore, Divisions have largely absorbed most if not all inflationary pressures.
- In addition to the 1% reduction target over the 2015 Approved Operating Budget, the Mayor openly discussed a 2% efficiency /productivity target for all Divisions and Agencies. The 2% efficiency /productivity target was only one tool or mechanism needed to reach the overall target of 1%.
- In the 2016 Preliminary Operating Budget submitted to Budget Committee on December 15, 2015, City Programs were \$34.463 million or 1.7% over the 2015 Approved Net Operating Budget, owing largely to Citizen Centred Services "A" revenue losses primarily for Court Services and from the Federal government, which totaled approximately \$27.670 million.
- City Agencies were collectively \$60.253 million or 3.3% over their respective 2015 Approved Net Operating Budget. The net increase was largely driven by the Toronto Transit Commission and Toronto Police Service base salaries and benefit increases. In addition, to the annualization from prior year decisions for the Toronto Transit Commission.

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Appendix 1 2016 Operating Budget Inflationary Factors

Expenditures Description	Budget 2016	Plan 2017	Plan 2018
Printing & Paper Products	1.10%	1.10%	1.10%
Food	2.10%	2.10%	2.10%
Hydro (General)	6.00%	6.00%	6.00%
Hydro - Signals & Lights	6.00%	6.00%	6.00%
Gas	1.04 per litre or 0%	1.06 per litre or 1.9%	1.10 per litre or 3.8%
Diesel	1.04 per litre or 0%	1.06 per litre or 1.9%	1.10 per litre or 3.8%
Steam Heating	8.00%	8.00%	8.00%
Natural Gas	0.00%	0.00%	0.00%
Water	8.00%	5.00%	5.00%
Chilled Water	2.10%	2.10%	2.10%
Postage	3.20%	3.20%	3.20%
Telephone / Cellular	0.00%	0.00%	0.00%
Bldg / Trade Materials / Tools & Equipment	2.20%	2.40%	2.50%
Salt	3.50%	4.00%	4.50%
Medical Supplies	2.18%	2.02%	2.04%
Contracted Services*			
CPI - General	2.18%	2.02%	2.04%

* Note: Contracts with fixed prices over their term are not adjusted for inflation. Where the price schedule specifies the 2016, 2017 and 2018 contract price such prices should be included at the price approved in the tender.