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## 2016 OPERATING BUDGET BRIEFING NOTE

### 2016 Inflation Costs in Contracted Services

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#### Issue:

The Budget Committee, at its meeting of January 5, 6, 8 and 11, 2016 requested that the Deputy City Manager & Chief Financial Officer submit a briefing note on the cost of inflation in contracted services over 2015, by division and cost centre, and compared with in-house services.

#### Background:

Most commonly, contractual cost increases are calculated as a combination of changes in both, individual unit costs and volume of units to be delivered. An added complexity arises from the fact that the multitude of City contracts span over different time periods, so even if contracted volumes remain unchanged, any given budget year may involve two different contracts, each one based on a different inflation rate.

Given that the same contract can encompass more than one cost centre and/or division, as the same service can be contracted to different suppliers across different locations, it is often difficult to determine either volume or unit cost specific to each cost centre and/or division.

Historically, City programs have been offsetting inflationary cost pressures through variety of identified savings including line by line savings, efficiency measures and other cost and revenue adjustments.

For the above reasons, there is no readily available data specific to inflationary cost increases that can be compared on an annual basis by cost centre and by division, or to be used as a basis for comparison of costs for contracted services with the costs of the same services delivered in house. This Briefing Note provides aggregate data on a year over year change in budgeted costs for contracted services by each program with key points outlining reasons for the most significant changes.

#### Key Points:

- The 2016 Preliminary Operating Budget allocates \$858.318 million to contracted services, an increase of 5.6% or \$45.635 million over the 2015 Operating Budget, as shown in Table 1 below.

- Contracted services costs presented in the table below are net cost increases, as significant portion of those costs has been offset through individual program efforts to meet 2016 operating budget targets.

**Table 1: Comparison of Contracted Services Costs\* by Program**

Program	2015 Budget (\$'000)	2016 Preliminary Budget (\$'000)	2016 vs 2015	
			(\$'000)	%
311 Toronto	\$1,090.6	\$1,219.1	\$128.5	11.8%
Affordable Housing Office	\$12.3	\$10.0	(\$2.3)	(19.0%)
Association of Community Centres	\$199.0	\$199.8	\$0.7	0.4%
Auditor General's Office		\$1.0	\$1.0	
Children's Services	\$350,170.5	\$351,099.0	\$928.5	0.3%
City Clerk's Office	\$1,428.1	\$1,521.6	\$93.5	6.5%
City Council	\$33.0	\$18.0	(\$15.0)	(45.5%)
City Manager's Office	\$1,175.3	\$1,184.1	\$8.8	0.8%
City Planning	\$163.5	\$184.3	\$20.8	12.7%
Court Services	\$827.2	\$851.6	\$24.4	2.9%
Economic Development & Culture	\$4,974.1	\$3,301.5	(\$1,672.5)	(33.6%)
Engineering & Construction Services	\$1,675.9	\$1,348.5	(\$327.5)	(19.5%)
Exhibition Place	\$200.0		(\$200.0)	(100.0%)
Facilities, Real Estate, Environment & Energy	\$40,188.4	\$40,306.4	\$118.0	0.3%
Fire Services	\$4,141.6	\$4,234.8	\$93.3	2.3%
Fleet Services	\$4,521.3	\$3,546.5	(\$974.7)	(21.6%)
Information & Technology	\$18,359.5	\$19,700.5	\$1,341.0	7.3%
Integrity Commissioner's Office	\$10.0		(\$10.0)	(100.0%)
Legal Services	\$7.5	\$7.5		
Long Term Care Homes & Services	\$5,834.9	\$6,024.8	\$189.9	3.3%
Mayor's Office		\$0.2	\$0.2	
Municipal Licensing & Standards	\$498.0	\$499.0	\$1.0	0.2%
Non-Program Expenditures	\$700.0	\$700.0		
Office of the Chief Financial Officer	\$98.3	\$77.7	(\$20.6)	(21.0%)
Office of the Lobbyist Registrar	\$4.8	\$4.9	\$0.1	1.9%
Office of the Ombudsman	\$8.0	\$8.1	\$0.1	1.5%
Office of the Treasurer	\$1,456.8	\$1,348.5	(\$108.3)	(7.4%)
Parks, Forestry & Recreation	\$42,554.9	\$43,657.0	\$1,102.2	2.6%
Policy, Planning, Finance & Administration	\$97.1	\$98.2	\$1.2	1.2%
Shelter, Support & Housing Administration	\$65,796.9	\$68,223.7	\$2,426.8	3.7%
Social Development, Finance & Administration	\$72.7	\$72.7		
Theatres	\$4,701.8	\$3,074.0	(\$1,627.8)	(34.6%)
Toronto & Region Conservation Authority	\$1,086.1	\$1,086.1		
Toronto Building	\$104.1	\$109.1	\$5.0	4.8%
Toronto Employment & Social Services	\$15,112.1	\$15,401.5	\$289.4	1.9%
Toronto Paramedic Services	\$2,801.3	\$2,896.8	\$95.5	3.4%
Toronto Police Service	\$4,225.9	\$3,629.5	(\$596.4)	(14.1%)
Toronto Public Health	\$20,200.8	\$19,776.8	(\$424.0)	(2.1%)
Toronto Public Library	\$10,781.8	\$11,452.5	\$670.7	6.2%
Toronto Transit Commission - Wheel Trans	\$39,656.6	\$47,835.5	\$8,178.9	20.6%
Toronto Zoo	\$2,934.8	\$2,522.0	(\$412.7)	(14.1%)
Transportation Services	\$164,142.0	\$200,453.1	\$36,311.1	22.1%
Yonge-Dundas Square	\$635.8	\$632.0	(\$3.8)	(0.6%)
<b>Grand Total</b>	<b>\$812,683.2</b>	<b>\$858,317.8</b>	<b>\$45,634.6</b>	<b>5.6%</b>

\*Costs of consulting and professional service excluded

- The following programs will incur large increases in costs of contracted services in 2016:

- *311 Toronto*: Inflationary increases account for a net increase of \$0.032 million or 25% of the total and they have been offset by various efficiency savings. The remaining increase in costs in 2016 (\$0.095 million or 75% of the total) are to acquire and implement WebMethods software.
- *Children Services*: A net cost increase in contracted services of \$0.928 million is primarily attributable to an inflationary increase of \$6.021 million or 1.7% for purchased service providers; and a rent increase of \$0.111 million for City operated centres. These increases are offset by a reduction of \$4.563 million in the cost of purchased service providers reflecting a change in case mix; and a decrease of \$0.320 million in Section 37 funded minor capital grants and other adjustments.
- *City Clerk's Office*: The increase mostly reflects additional costs required to engage and develop partnerships in order to enhance the City's accessibility plan for the 2018 Elections, which are fully funded from the Election Reserve Fund.
- *Information & Technology*: The software and hardware maintenance expenditure increases of \$1.002 million net are due to variety of reasons, including US\$ exchange rate, business transformation process (higher number of servers, new products for tracking and archiving and increased need for antivirus management), as well as vendor contract inflationary increases mainly for software and hardware maintenance required for various divisions. The remaining cost increase is for the additional space required in the contracted data centre to accommodate growth in City-wide business applications. 67% of this increase will be offset by revenues from sub-leasing the property to TCHC resulting in a net cost impact of \$0.1 million.
- *Long Term Care Homes & Services*: Approximately \$0.065 million or 35% of the total increase is attributable to contractual obligations incorporated in both corporately and divisionally administered contracts. The program mitigated some of these pressures through additional funding and line-by-line savings in other budget categories. The remaining \$0.124 million or 65% of the total increase is directly related to the return to service of 145 beds at Kipling Acres.
- *Parks, Forestry and Recreation*: Contracted service cost increases are predominately in three areas – landscaping, waste disposal and facility maintenance. They reflect planned expenditures for tree planting, increased solid waste management user fees and higher repair and maintenance costs at recreation facilities. Inflationary increases in 2016 were partially accommodated through re-alignment of the base budget and line by line savings.
- *Shelter, Support and Housing Administration*: An increase of \$0.126 million or 87% (over 2015) is included for laundry service costs due the added precautions necessary to mitigate infestation. The remaining increase in contracted services is due to annualized costs for Purchase of Service (POS) of \$0.600 million for the additional LGBTQ2S shelter approved in 2015, as well as due to reallocation of costs of \$2.010 million for additional shelter beds to add capacity to the system approved in 2015 which were previously budgeted under a different cost element. The latter has been offset by a reduction of \$0.320 million in funding to some POS shelters due to requirement changes.
- *Toronto Paramedic Services*: The increase in costs relates to laundry services and maintenance of medical equipment (\$0.219 million) as a result of addition of Paramedic

FTEs in previous year. The increase is offset by the completion of CMED-CAN Program and contracts transferred to Facilities, Real Estate, Environment and Energy (\$0.124 million).

- *Toronto Public Library:* The contracted services budget allocates 0.347 million or 51.7% of the total increase for higher cost for contracts related to technology maintenance and licensing, many of which are billed in US dollars and are substantially affected by currency exchange costs. The remaining cost increases are for new building equipment maintenance contracts, such as elevators, HVAC, building automation, security monitoring, fire alarms, etc. (\$0.217 million); and new contracts for janitorial services, guard services, landscaping and snow removal which include adjustments for minimum and fair wages (\$0.241 million). In addition to inflationary pressures, many replacement parts required to maintain building equipment are sourced in the U.S.A. and therefore affected by the significant loss of value of the Canadian dollar. The 2016 preliminary budget includes a reduction of \$0.134 million in savings in waste disposal costs through the implementation of work flow improvements, changing the way the library disposes, uses and recycles waste.
  - *Toronto Transit Commission – Wheel Trans:* The increase in the contracted service budget for TTC-Wheel Trans of \$8.179 million is related to increase of 14% in readership demand (\$8.771 million) and is partially offset by \$0.654 million in reduced cost resulting from change in the modal split for service delivery.
  - *Transportation Services:* Inflationary increases of \$8.624 million are primarily due to winter maintenance contract renewals (\$7.723 million) representing an increase of approximately 9.1% above the winter maintenance costs in 2015, and reflecting the fact that previous contracts were tendered in 2008. This inflationary increase is partially offset by a one-time contribution from the Winter Maintenance Contribution Reserve Fund of \$4.0 million to help mitigate the impact of cost escalation. The remaining cost increase of \$27.537 million is predominantly due to utility cut repair volume increases and it is fully offset by increases in utility cut repair revenue.
- A number of City programs will experience a decrease in costs of contracted services in 2016, mostly due to identified savings as well as programing changes and reversal of one time projects/funding.

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