EX11.1 Attachment 1

Value Based Outcomes Review:

A Fiscal Modernization Agenda for the City of Toronto

December 2019

EY

TORONTO

Contents

Executive Summary

This Value-Based Outcomes Review (VBOR) was conducted for the City of Toronto to provide insight into its recent expenditure trends and forecasted financial position, and to provide a series of alternatives that could assist the City in moving towards a sustainable financial footing. The Review was based on expenditure data[1] provided by the City and key operating Agencies and on an extensive interview program with City and Agency leaders.

The forecast is based on the City's free cash flow – that is, isolating whether or not the City is spending more than it is generating in revenue in a given year. This view, which adjusts for the City's reserve policy, capital plan, and financing decisions, suggests that without a real effort to change the underlying drivers of the City's budget, risk to the City's fiscal plan will be introduced. Over the next three years (2020-22), the City's average annual cash flow risk is forecast to be $1B if sustainable strategies for fiscal management cannot be secured, some of which are contemplated in the analysis that follows.

The fiscal risk is the result of a combination of factors, including:

- Insufficient cash generated by operations to fund obligatory reserves and the City's capital plan
- A10-year capital plan that reflects significant pressure on the City's asset stock and additional growth requirements
- The role the City plays in funding key services that provide a regional benefit, without contributions towards operating expenses from a regional tax- or rate-base

Over the last four years (2015-18), a detailed analysis of the City's expenditures shows that Core City operations have a compound annual growth rate (CAGR) of 0.6% in real terms ($2018) and operating agencies have an expenditure CAGR of 0.2%. Over that same period, the demand base over which the City operates has grown by CAGR 2.1% (population growth), and real per-capita City expenditures have reduced from $3,166 in 2015 to $2,976 in 2018. This suggests that the City is not funding increased demand in services driven by population growth through higher levels of expenditure, but rather, responding to growth through continued focus on generating efficiencies in its budget.

However, the current analysis demonstrates that over the three-year forecast period to 2022, this same effort is not sustainable without transformational efforts to change the way the City operates. In part, this is the result of continued pressure on City revenues including those introduced by recent Provincial policy changes. But the challenge is more fundamental and requires a renewed effort to fiscal management, including changes to the way the City manages its budget. The historical approach has been to build budgets on a division-by-division basis with a focus only on the current year. Responding to the forecast fiscal risk facing the City will require a more strategic and multi-year approach, including improved discipline in in-year financial management. Fortunately, the opportunity for transformation

[1] Data sources included previous budgets, unaudited actuals, audited financial statements, the approved capital plan, the Long-Term Financial Plan, and reports from the Fraser Institute and the CD Howe Institute.

and modernization is recognized and should be pursued with focus and purpose by Council and City officials.

The budget process and structure is one organizational challenge that needs to be addressed to move the City towards a more sustainable financial position. Other reform opportunities include:

- Establishing a single owner of the fiscal plan – operating and capital, for the immediate year and over the long-term – on both the political and administrative side; for example, through enhanced authority for the Budget Committee and Chair on the political side and the City CFO on the administrative side
- Enhancing the administration's flexibility around staffing levels and allocations, through the City Manager
- Developing and managing a corporate plan to capture and reallocate savings towards further transformational change including to modernize City operations
- Aligning all Divisions and Agencies to corporate initiatives aimed at securing long-term fiscal sustainability

These opportunities are present and can be addressed hand-in-hand with a series of operational changes to drive the City towards a sustainable financial position and help address forecast risks. These operational changes fall into five broad categories:

- Collection & Enforcement – maximizing the collection of what the City is owed, either financially or in terms of goods or services being purchased
- Productivity – modernizing the approach to internal and external service delivery, in order to optimize the direct cost of service, including through meaningful commitment to digitally-enabled service delivery
- Workforce Optimization – within the constraints of labour agreements, restructuring labour force deployment to optimize cost and delivery effectiveness
- Alternative Business Models – taking an explicitly commercial approach to a wide variety of services to increase efficiency, productivity and revenues
- Infrastructure & Asset Management – optimizing the planning, delivery, and financing of the City's capital investment requirements

As presented below, the potential financial impact of pursuing transformation in these categories is significant and would contribute to the City's fiscal sustainability. However, they are not enough on their own to fully address the challenge. This requires commitment to changing the City's operations and structure in a manner that will not only improve its financial status, but also its overall governance and accountability. The opportunities identified in this report – both structural and operational – are, for the most part, within the control of the City to execute and can be realized within the current term of Council.

The City of Toronto is the key driver of the regional, provincial, and national economy. It is too important to allow it to continue to operate in the manner it has to date – funding regional programs without corresponding revenues, operating in a siloed and outdated manner, and without the financial systems and controls appropriate to a government of its size. Fortunately, working with its various partners, Council and City leadership can address these issues and give the City the world-class future it deserves.

Mandate

Scope of Work

EY was engaged to help the City of Toronto ("the City", "Toronto") conduct a Value Based Outcomes Review ("the Review," "VBOR") to identify a strategy to help manage the fiscal impact of policy decisions made by the Government of Ontario in early 2019. The total impact of the changes is expected to be just shy of $200M on an annual basis at full maturity. Consistent with the requirements of the Provincial Audit and Accountability Fund, the scope of work includes an expenditure review with the goal of finding service delivery efficiencies. Specifically, the work focused on assessing opportunities to enhance the fiscal sustainability of services provided by City divisions and key agencies, in pursuit of an on-going evidence-based approach to financial management. As per the guidelines of the Audit and Accountability Fund, new sources of tax revenue or increases to existing tax rates were out of scope.

The VBOR was not undertaken exclusively as an efficiency study, but rather as a review that focused on how to increase the value derived by the City and residents from existing spending and service priorities through productivity enhancements. Service level reductions and increases to property taxes were not considered.

The financial analysis focused on City Divisions and seven large Agencies that represent 96% of all Agency expenditures.

Methodology and Approach[2]

The Review was conducted over a twelve-week period in the summer of 2019 and relied exclusively on various operational, financial, and program data collected from the City and major operating Agencies; a key finding of the Review is that these data are limited in some important ways. Publicly available information was also reviewed to bolster the analysis. An important recommendation going forward is for a relentless focus on data and analysis to strengthen the City's ability to drive greater efficiencies and better outcomes.

The approach taken by the Review is to use the available data to guide all conclusions (including about when and where further data are required), to focus on a relatively small number of factors and strategies that could have the most meaningful impact on future fiscal performance and service results, and to identify necessary enabling conditions and governance arrangements for the work that lies ahead. These factors are viewed as necessary to achieve any strategy the City will choose for fiscal management but are not, on their own, guarantees of success. That would come only if there is sustained commitment to fiscal discipline and evidence-based decision-making.

[2] The work has been limited in scope and time and it should be noted that more detailed procedures may reveal issues that this engagement has not. The findings summarized in the report are subject to the Notice stated above, and do not constitute an audit, review or other form of assurance.

Overall, the review:

- Conducts analysis of spending actuals dating back to 2015 and the 2019 budget, for the City and key Agencies
- Layers in the fiscal impact of the Provincial policy changes to determine the true size of the City's fiscal challenge
- Derives a series of hypotheses around efficiency and productivity gains through data analysis and over 100 interviews with City and Agency leaders, including repeated validation of the assessed opportunities and the findings of the financial review
- Provides a further set of alternatives around the City's financial management and structure, based on observations, interviews, and leading practices, aimed at helping the City achieve and maintain fiscal sustainability

1 - Overall Context

1.1 – Toronto's Unique Role in Ontario and Canada

It is difficult to compare the City of Toronto with other municipalities and municipal governments in Canada. Toronto has characteristics which, in combination, make it stand out as unique amongst its peers.

Size

Toronto is the largest City in Canada, with a population of 2.96M in 2018. It represents 7.8% of Canada's total population; it also has the fastest growing population of any major city in North America and is currently the fourth-largest city on the continent (after Mexico City, Los Angeles, and New York). To put this in context, the City of Toronto grows by the equivalent of the entire population of the City of Burlington every seven years.

In many ways, the more apt comparison for the City of Toronto is to Provincial governments. If Toronto were a province, it's economy would rank third, after only Ontario and Quebec, and equivalent to Alberta[3]. Additionally, the City spends approximately 22% more than the regional average per capita due to transportation, social infrastructure, and compensation and remuneration demands based on population size and growth.[4]

Economic Significance

The region of Toronto is the most important locale to the national economy, accounting for 18.5% of national GDP[5]. Toronto's GDP growth outpaces both national and provincial GDP growth. Since 2009, the Toronto Region has grown by an average of 2.4% annually, compared with the national average annual growth rate of 1.8%.[6]

Within Ontario, Toronto and the surrounding area have been responsible for substantially all job growth dating back to 2003, creating approximately "93% per cent of the 915,100 net jobs created in the province. In contrast, Eastern Ontario and Southwestern Ontario gained 84,400 and 100 net new jobs respectively, while Northern Ontario saw employment decline by 23,600 net jobs."[7]

Regional Responsibility

As the center of the Greater Toronto Area (GTA), the City has taken on an outsize role in the region, bearing a disproportionate burden for a number of services, including public housing, transit and transportation, and social services.

As one example, the City of Toronto provides 90% of the public housing in the Greater Toronto Area and 27% of the total social housing in Ontario,[8] which is clearly out of proportion to the City's overall share of the population. The City's primary provider of affordable housing, the Toronto Community Housing Corporation (TCHC), faces a significant challenge in maintaining its existing property portfolio and growing it in a fashion that is both

[3] Toronto's economy doesn't get the respect it deserves. Macleans.
[4] Comparing Municipal Finances in the Greater Toronto and Hamilton Area. The Fraser Institute.
[5] Toronto Region Quick Facts. Toronto Global.
[6] 2018 Issue Briefing: Toronto's Economy. City of Toronto.
[7] 2018 Ontario Economic Outlook and Fiscal Review. Province of Ontario.
[8] 2018 Issue Briefing: Affordable Housing. City of Toronto.

affordable and can meet the latent demand in the Region, where 100,000 people are on waiting lists for social housing.

In fact, it has long been recognized that Toronto bears a disproportionate burden for social housing. After amalgamation and a realignment of provincial/municipal service delivery that saw municipalities take on the provision of housing, the provincial government introduced social services pooling, which saw other municipalities in the region provide funding to Toronto to partially offset the cost of social housing.[9] This pooling was later replaced by direct provincial funding, which was phased out in 2014. The full cost of providing regional social housing since then has been borne by the City of Toronto.

In addition to social housing, in recent years, as the Federal government has increased the number of refugees it accepts and as processing times for asylum applicants grow, Toronto has taken on a disproportionate number of refugees and refugee/asylum claimants, creating added pressure on the emergency shelter system. For example, in November 2016, 10% of shelter system demand was driven by refugee claimants; by January of 2019, this had increased to over 29%.[10] This increased demand is putting pressure on the operating budget of Shelter, Support and Housing Administration. The most recent operating budget variance report to City Council showed a $10.9M overspend between the start of the year and June 30; this is projected to grow to a $27.4M overspend over the full year.[11]

As another example, Toronto is the focal point for economic and cultural activity in the GTA, and as a result, there is a large population that commutes from outside the City to work or pursue leisure activities. Recent analysis has suggested that only 65% of the total traffic volume on the Gardiner Expressway and Don Valley Parkway (DVP) is generated by Toronto residents, with the remainder coming from residents of other municipalities. As the City rehabilitates the Gardiner, Toronto property taxpayers will foot the full bill of $3.8B between 2018 and 2023.[12] An effort by the City in 2016 to place tolls on the Gardiner and more fairly distribute the burden on users (as opposed to residents) was rejected by the Provincial Government, which, instead offered an enhancement to the share of the gas tax provided to municipalities, with Toronto estimated to receive $170M[13] annually, as compared to the $200-300M in annual revenues a toll was estimated to generate. Subsequent Provincial policy decisions cancelled the increase, leaving the City to find $170M in annual funding to invest in transit and transportation priorities. Decisions around the Gardiner and how to fund ongoing maintenance have an outsized impact on the City, since the Gardiner accounts for just over 1% of the kilometres of the City's total roads, but 53% of the City's State-of-Good-Repair budget.[14]

Finally, the TTC acts as a regional transit provider, with 13% of all trips either starting or ending outside the City of Toronto in 2016. Of all trips that end within the City, 18% originate

[9] Staff Report to Council: Loss of Toronto Pooling Compensation for Social Housing – Budget Strategy. City of Toronto.
[10] 2019 Operating Budget Briefing Note: Refugee Claimant Flows to Toronto and Associated Pressures on Shelter System. City of Toronto.
[11] Operating Variance Report for the Six Months Ended June 30, 2019. City of Toronto.
[12] Staff Report to Council: Tolling Options for the Gardiner Expressway and Don Valley Parkway. City of Toronto.
[13] Ontario denies Toronto tolls, boosts gas tax funds for municipalities. Canadian Press.
[14] Toronto's Future: Who's Paying? Speech by City Manager. Institute on Municipal Finance and Governance.

outside its boundaries,[15] a demand that continues to grow since the opening of the Toronto-York-Spadina Subway Extension in December 2017.

Income Redistribution

In addition to the provision of social housing, the City of Toronto has responded to pressures such as cost of living and affordability through policies that expand its role as a service provider and put a focus on income redistribution in a much stronger way than many other comparable municipalities. Programs such as the City's fair wage policy, the structure of the City's childcare programs, and various subsidies based on income or neighbourhood are all redistributive in nature. While opining on broad policy decisions is outside the scope of this report, it should be noted that the City's revenue sources are largely independent of income and economic growth. As such, the City should be conscious about how and where it creates, funds and runs redistributive programs, considering risks to long-term fiscal sustainability.

1.2 - Current Financial Management Approach

Within this overall context, one issue that the City of Toronto faces is that while in size, complexity, and ambition it is more akin to a mid-sized Province, in terms of financial structure, approach, and capacity, it is a typical municipality, lacking the controls and institutions that allow provincial governments to oversee and manage budgets and programs of significant complexity. This is a key issue, and contextualizes the analysis and alternatives discussed from this point forward. That the City can enhance an evidence-based approach to budgeting and execution is demonstrated in some key areas and presented as options to enhance overall fiscal management.

Budget vs. Actuals

A significant challenge in analyzing the City's current fiscal position is the difficulty in reconciling budgets to actual spending numbers, which are prepared on a cash and accrual basis, respectively. As detailed in the analysis below, to reconcile the two approaches requires a series of adjustments, and neither gives a simple and singularly accurate view of the revenues and expenditures under the City's control.

A related issue is that historically, the City has set its budget based on the prior year's budget, as opposed to prior year actuals. Over the period of analysis covered herein, every prior year has seen an over-performance on both the revenue and expenditure side, resulting in a budget surplus at the end of the year. Going forward, the City has committed to a new approach of preparing the budget based on prior year actuals as opposed to the prior year budget, a change that should be an important factor in helping to improve the accuracy and transparency of the City budget.

Level of Control

Throughout the budget and reporting process, there is a blurring of the roles and responsibilities of the key actors in the process. Specifically, between Council, City Leadership, Divisions, and Agencies, there are incursions into what should be each others area of responsibility, resulting in a lack of operational flexibility that hampers the City's ability to manage finances in real time.

[15] Transportation Tomorrow Survey 2016. Data Management Group, University of Toronto.

Fiscal Management Institutions

Overall, the City is in a position where it is larger than many provinces in both size and ambition but lacks the institutions that are standard in provincial governments such as strong expenditure management functions for both capital and operating budgets. For example, a centralized treasury or management board function might enhance ownership of the overall operating budget, long-term outlook, and multi-year capital plan, and improve overall accountability for expenditure commitments over time. While accountability for individual objectives and budgets could continue to sit with operating functions, co-ordination across the full budget at a consolidated level could be strengthened and enable greater focus on City-wide priorities.

Fiscal Position

The major ratings agencies (such as DBRS, S&P, and Moody's) all issue regular reports on the City's finances, with each agency using their own methodology to normalize Toronto's finances to enable comparison with what the Agencies use as benchmark metrics. Toronto generally rates well. However, each of the ratings agencies comment on potential risks and indicate the City should continue to focus on the need for investment in net new capital infrastructure and maintenance of the state of good repair of the existing asset base.

1.3 - Implications

Fundamentally, what this means is that while the City has recognized the challenges it faces in its Long-Term Financial Plan, through initiatives that are currently underway like budget modernization and corporate real-estate transformation, opportunities remain at both the political and administrative level to implement cross-divisional modernization initiatives that will help place it on a sustainable financial footing.

In other words, while the City of Toronto has made significant progress in modernizing its operations in recent years, even stronger and more effective government is possible and with appropriate implementation management, are the necessary underpinning of fiscal sustainability. Key opportunities include the need for:

- Continued budget and systems modernization to generate the type of information that allows for informed decision-making in a timely manner;
- Establishing a single owner of the fiscal plan – operating and capital, for the immediate year and over the long-term – on both the political and administrative side (for example through enhanced authority for the Budget Committee and Chair on the political side and the City CFO on the administrative side);
- Appropriate flexibility provided to the City Manager around staffing levels that will allow division heads to manage to council priorities, including the use of a targeted voluntary separation program;
- New processes to budget for and allocate savings that creates incentives to find efficiencies on an ongoing basis;
- Clear delineation of roles and responsibilities across Council, Senior Leadership, Divisions, and Agencies; and,
- Willingness to mandate Divisional and Agency participation in transformation initiatives, with consequences for non-compliance.

2 - Financial Analysis

2.1 2015-current

The first step in conducting the financial analysis was to consider actual spending over the period 2015-2018[16] on a citywide basis. Data provided by the Financial Planning Division was used as a starting point, with the following adjustments made to establish a view of the financial underpinning of the City's operations through removal from the analysis of:

- Revenue and related expenditures that were collected by the city and flowed-through to the province. As an example, school board tax levies are collected by the city and passed through to the province, with the City having no control over these funds.
- Subsidy revenue and related expenditure where the city received funds and paid them directly to residents or third parties for service delivery (flow-throughs).
- Accounting adjustments that were not directly related to operating expenditures.
- Contributions to and from reserves and reserve funds that were not available in enough detail to analyse the operational components.
- Debt principal payments (sinking fund) as these are related to previous financing decisions, not to operations.

Finally, for City Divisions (collectively referred to as "core city operations"), Inter-Divisional Charges and Recoveries (IDC's and IDR's) were removed, as these are internal allocations of funding that net to zero. Leaving them in for the purpose of analysis would result in double-counting them in the city's operational expenditures and revenues.

For Agencies, where available, Finance-provided data was replaced with Agency data as it provided line-item detail and more reliability as to the categorization of expenses and revenues.

A summary of the adjustments made in order to arrive at operating expenditures is outlined in Table 1 below:

[16] Note that all dollar amounts in this section are presented in Real 2018 dollars unless otherwise stated

Table 1- Adjustments Required to Arrive at Operating Expenditures

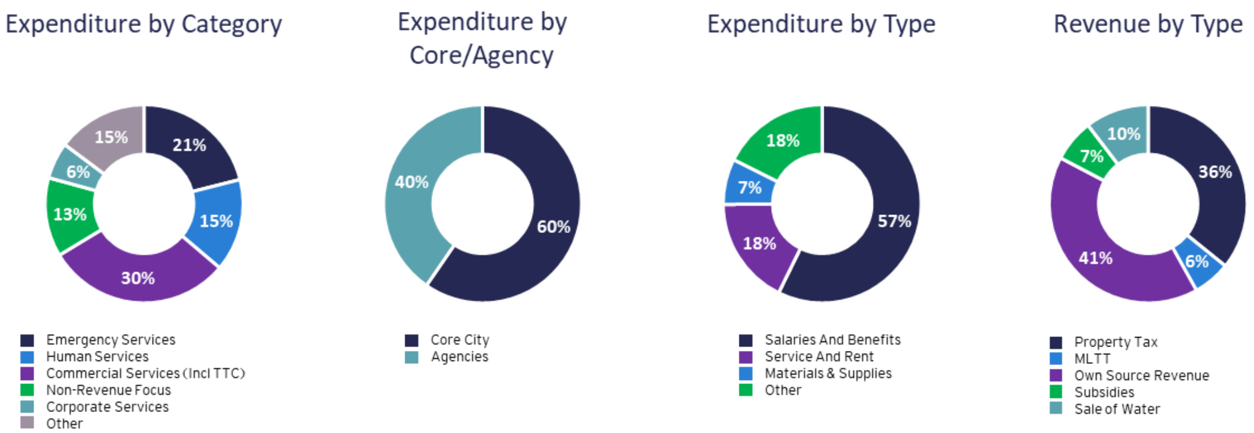
		Included/Excluded	Rationale	2018 $ Expenditure (Millions)	
	City expenditure per FPD data			15,201	
Accounting and flow-throughs	Tax Levies for BIA's and School Taxes	Excluded from baseline	These amounts flow in and out for a net impact of 0. They are not included on a gross basis in the budget	(2,255)	
	Accounting adjustments	Excluded from baseline	These are the reconciling items between cash basis and accrual basis	(2)	
	Material flow-through funds from the provincial / federal government	Excluded from baseline	These are not controllable City expenses and are transferred to external agencies on behalf of the Federal / Provincial government	(1,737)	
	Baseline City Expenditure			**11,208**	A
Non-Operating Expenditure	Inter-divisional charges / recoveries (IDC's/IDR's)	Excluded from analysis	These charges should net-off and have been excluded to get the true City revenue and expenses without internal adjustments	(293)	
	Contributions to and from reserves and reserve funds	Excluded from analysis	A separate view will be shown on reserve movements as these are not directly related to movements in FPD data provided	(1,654)	
	Debt principal payments	Excluded from analysis	These are capital repayments not core operating expenses	(311)	
	City operating expenditure (excluding IDC)			**8,945**	
	Programs		*"Core City" Expenditure*	5,187	B
	Agencies			3,758	

(A) Baseline City Expenditure of $11,208M is the starting point for calculating City Expenditure for the programs and agencies
(B) Core City Expenditure represents the controllable city expenditure that will be analysed

Operating Expenditures and Revenues

At its core, analysis of the City's recent operating performance shows that revenues are growing faster than expenses within the City, and the opposite is true for Agencies. Across both the City and Agencies, expenditures are growing more slowly than the population, another demonstration that the City has been funding growth pressure through expenditure control. Going forward, continued focus on expenditure control is required within the statutory obligations and policy choices of Council. However, from an overall fiscal management perspective, analysis indicates that expenditure control alone is unlikely to fully address emerging fiscal risk.

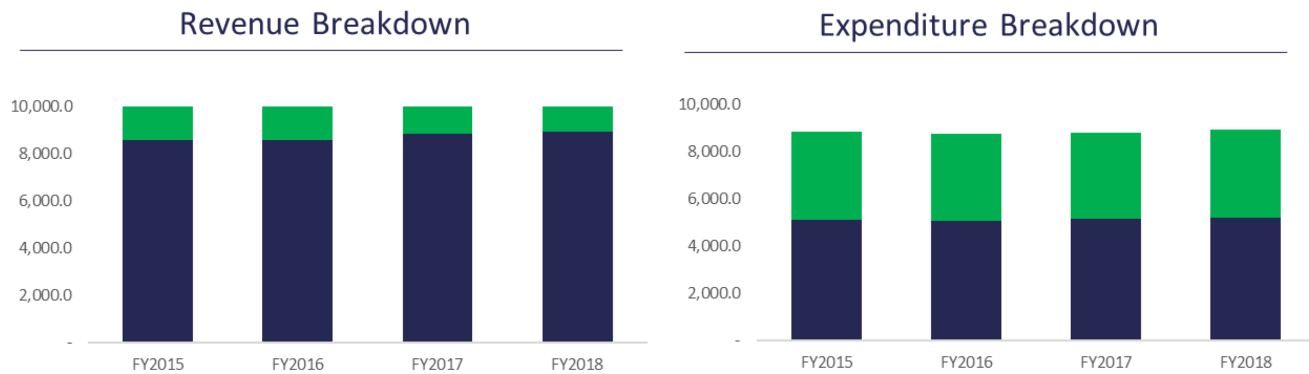
Figure 1 - Overall Operating Expenditures and Revenue



As shown below, revenue collection and expenditures are not proportionally distributed across the Core City and Agencies; the City provides significant subsidies to its operating agencies through revenues collected, primarily through property taxes.

The Core City – that is the Divisions that make up City operations – represents $5.2B of expenditures. This should be thought of as what is currently directly controllable by the City, and the base on which any adjustments to expenditures would be made. From 2015 to 2018, Core City real ($2018)[17] expenditures grew at a Compound Annual Growth Rate (CAGR) of 0.6%, largely driven by growth in salaries and benefits and in contributions to capital. Core City revenues grew at a CAGR of 1.4%, outpacing expenditures. However, at the same time, Agency expenditures grew significantly faster than their own-source revenues (especially for TCHC and TTC), with a CAGR of 0.2% and (0.7%) respectively. Put plainly, over the last four years, the City has been subsidizing Agencies to an increasing degree. The difference between operating revenue and expenditure breakdown illustrated below represents investment in capital, debt repayments, and contributions to reserves.

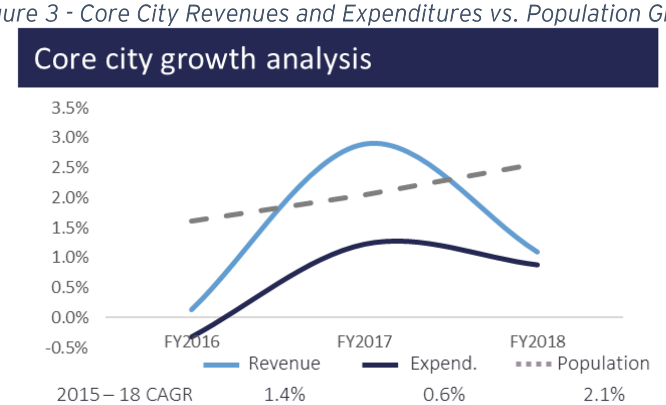
Figure 2 - Revenues and Expenditures, City and Agencies (real $2018)



Legend and Details	Expenditure CAGR	Revenue CAGR
Core City	**0.6%**	**1.4%**
Agencies	0.2%	(0.7%)

Note that for the Core City, both revenues and expenditures grew at a slower rate than the overall population of the City. In real terms ($2018), expenditures declined marginally between 2015 and 2016, with an overall real compound annual growth rate of 0.6% 2015-18.

Figure 3 - Core City Revenues and Expenditures vs. Population Growth

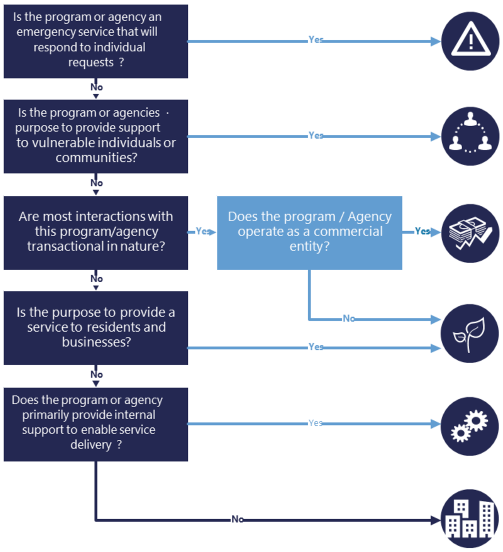


For the purposes of this analysis, Divisions and Agencies were placed into one of six categories, in an effort to group them together in a way that facilitates analysis and allows for

[17] Throughout the analysis and unless otherwise indicated, all historical analysis is presented in real terms ($2018).

a maximum amount of like-to-like comparisons. The categorization was done on the following basis:

Figure 4 - Program Categorization Methodology



Emergency: Provisioning of emergency services based on acute incidents or public protection. Response is based on a set of minimum service standards. Focus on most efficient deployment of staff, which drive cost.

Human Services: Assisting the City's most vulnerable individuals and providing a social safety net. Focus on efficiency in driving outcomes.

Commercial: Operating as a commercial entity. Focus on driving down the cost of delivery and maximizing revenue generation to be self-sustaining.

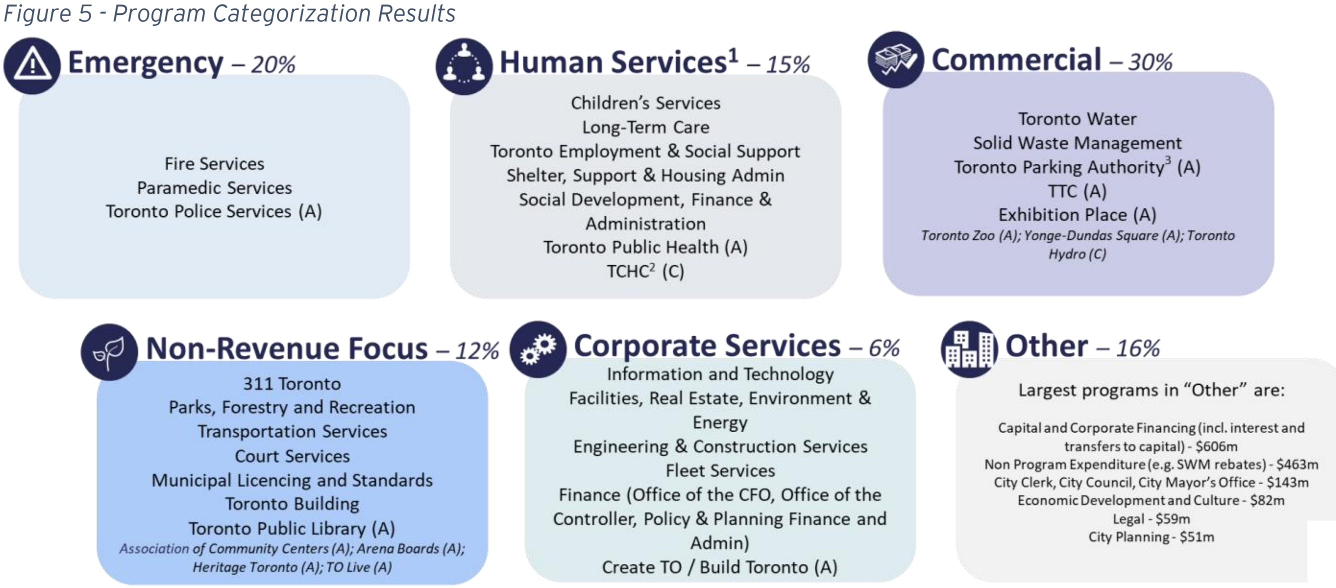
Non-Revenue Focus: Assisting with improving overall quality of life and providing administrative services to residents and businesses. Focus on efficiency and customer experience.

Corporate Services: Indirectly supporting the delivery services to residents and businesses. Focus on enabling service delivery at the lowest cost.

Other: Programs that don't fit in any other category, including Council, Non-Program Expenditures, and Financing.

The results of the categorization are shown below:

Figure 5 - Program Categorization Results



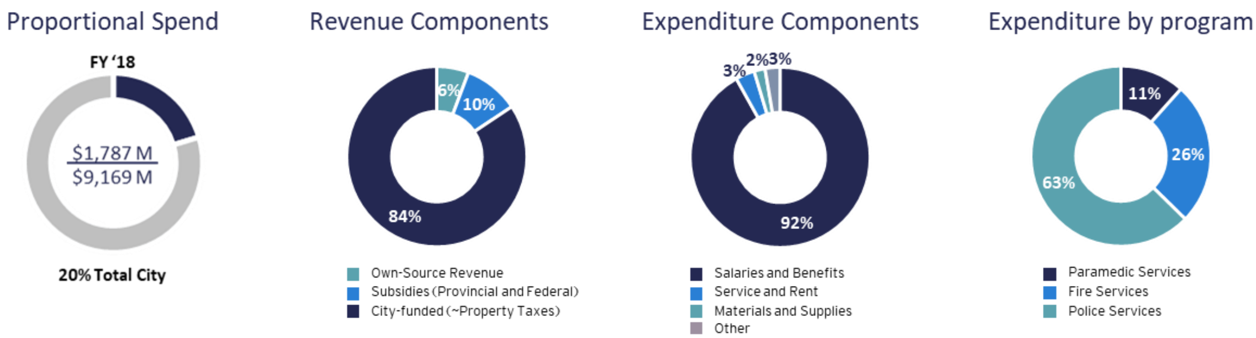
Key: A – Agency; C – Corporation; Italics – out of scope
Note 1: This excludes flow-throughs of $1.7bn, also excluded from the base
Note 2: TCHC of $485m has not been consolidated into the City or Agency numbers, however analysis has been conducted
Note 3: TPA Revenue and Expenditure have been included as an agency rather than investment income in Non-Program Revenue/Expenditure

A brief discussion of each category follows, including the preliminary conclusions around expenditure reduction that resulted from analysis of the data provided.

Emergency

The Emergency category is made up of Toronto Police Services (TPS), Toronto Fire Services, and Toronto Paramedic Services. As per provincial legislation, TPS is governed by the Toronto Police Services Board which sets overall objectives and priorities, with the Chief of Police being responsible for administration and operations. As a result, the City of Toronto funds TPS, but has very limited ability to direct operational changes. Fire and Paramedics operate as City Divisions, and as such, are subject to direct control by City Council and Administration.[18]

Figure 6 - Emergency Operating Expenditures and Revenue



Representing 20% of total spending, emergency service budgets are heavily reliant on City funding, as would be expected. All three are unionized environments (represented by the Toronto Police Association, the Toronto Professional Fire Fighters Association, and CUPE Local 416, respectively), and all three are categorized as essential services, and as such do not have the right to strike and are subject to interest arbitration. Given that 92% of spending in the Emergency category is on salaries and benefits, the primary route to expenditure management will be through improving the deployment and flexibility of the workforce, which will have to be done through collective bargaining.

[18] Total City Expenditures of $9,169M used for this analysis differs from the Total City Expenditure on page 14 as a result of including IDC's and using bottom-up agency financial data in order to more accurately reflect expenditures on a program-by-program basis.

Key Highlights

1. Despite CAGR in population of 2.1%, real expenditures have decreased at a CAGR of 0.7%, service levels have been maintained likely by utilizing existing system resources and capacity
2. Expenditure is 92% salary and benefits that decreased at a CAGR of 0.9%. The majority of these are unionized positions and subject to collective bargaining agreements
3. Real salary and benefits per FTE and per capita were flat or declined for Paramedics and Fire, while per FTE they grew at a CAGR of 0.9% in Police as FTE declined at a CAGR of 3.1%
4. There was no significant degradation of service levels despite increasing population density and aging population; however increasing pressure to meet response times can be seen in Paramedic Services in 2018 actuals and 2019 budget
5. As number of TPS hours spent on calls for service increased due to increased volume and changing nature of calls, total cost per hour on calls decreased and there is increased strain on existing resources to respond to calls
6. Funding is largely dependent on property taxes (and provincial funding for paramedics) with very little own source revenue generated. Net cost of service declined by a CAGR of 0.7% as provincial subsidies have grown at a CAGR of 2.9%

Historic and future drivers of cost or demand:

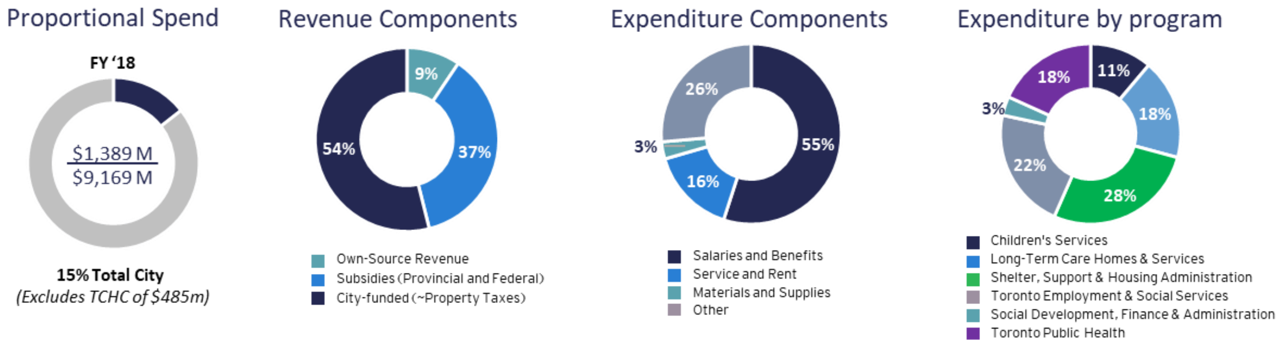
- Collective bargaining agreements
- Population growth and aging of population
- Population density (no evidence of this in historic data)
- Capital expenditure for facilities and vehicles
- Nature of calls for service

	2015-2018 CAGR
Real Expenditure Growth	-0.7%
Population Growth	2.1%

Human Services

Human Services is made up of Shelter, Support & Housing Administration (SSHA), Toronto Employment & Social Services (TESS), Toronto Public Health (TPH), Children's Services; Long-Term Care Homes & Services (LTC), and Social Development, Finance & Administration (SDFA). Toronto Community Housing Corporation (TCHC) also fits into this category, but has not been consolidated into the city or charts for the purposes of the analysis that follows.

Figure 7 - Human Services Operating Expenditures and Revenue



A key point to understand the impact of Human Services on the City's financial position is the role that flow-through funds play. These funds are money provided by the Provincial or Federal Government that are passed on by the City to individuals or service providers. In other words, they City has no discretion over the expenditure of these funds, and as such, they have been excluded from the analysis. This is a material portion of funding for Children's Services, SSHA, and TESS, as shown below.

Table 2 - Human Services Proportional Flow-Throughs

Flow-throughs as a percentage of program expenditure

	2015	2016	2017	2018	Average
Children's Services	67%	67%	65%	72%	**68%**
Shelter, Support & Housing Administration	52%	45%	48%	52%	**50%**
Toronto Employment & Social Services	68%	71%	75%	77%	**73%**

In addition to flow-through funds, several programs delivered in Human Services are cost-shared with the Province, where the province provides funding only as and when the City can demonstrate its own expenditure. While the City has discretion over its expenditures, reductions result in the loss of the provincial portion, which in some cases can be as much as four times the City's spend.

Overall, Total expenditure for Human Services in 2018 was $3.1bn, which grew at a CAGR of 3.1% from 2015-2018. $1.7bn (55.6%) of this expenditure is flow-through funding (amounts received from Federal/Provincial governments and are paid directly to individuals or agencies), with the remaining $1.4B representing direct City spend. Of this $1.4B, 37% ($477m) was provincially and federally funded, some of which was through cost-shared programs.

Any changes or reduction in cost-shared programs could result in a proportional reduction of funding from other levels of government; conversely, relying on provincial cost-sharing for the bulk of a given programs expenditures exposes the City to the risk of provincial funding cuts, as was demonstrated in early 2019.

Key Highlights

1. Total expenditure remained flat, with a negative CAGR of 0.3% as expenditures were rationalized in the face of growth
    a. Salaries and benefits were 55% of total expenditure; payments to service providers that constitute significant people costs amounted to an additional 19%
    b. FTE CAGR at 1.3% was below population growth, as extensive service delivery was outsourced to external agencies, with the City acting as a Service System Manager
2. Property Tax Funding increased at a CAGR of 2.5% and subsidies decreased at a CAGR of 6.6%
3. Service level data
    a. Increase in provincial and federal flow-through funding drove system growth
    b. SSHA: Increase in the social housing waiting list and a decrease in the number of subsidized units, and worsening of the TCHC Facilities Condition Index
    c. Children's services: Fee subsidy waitlist decreased and number of fee subsidies increased
    d. TESS: Number of employment centre service visits and OW service plans increased; average number of OW cases served declined at a CAGR of 1.5% following a trend since a peak 2012
4. TCHC expenditure decreased at a CAGR of 1.0%, and minor growth in own-source revenue was offset by a decrease in operating subsidies in real terms. Continuing a long-term trend, the condition of TCHC facilities has worsened since 2015 as materials expenditure (including maintenance) have decreased at a CAGR of 4.0%. A City Staff Report in Fall 2019 recommends a permanent funding model which addresses the $2.1B unfunded portion of the building renewal capital backlog that currently exists.

Historic and future drivers of cost or demand:

- Collective bargaining agreements
- Population growth and population mix change, particularly from immigration
- Unemployment and poverty levels
- Provincial operational requirements (mandates on service levels)

	2015-2018 CAGR
Real Expenditure Growth	(0.3%)
Population Growth	2.1%

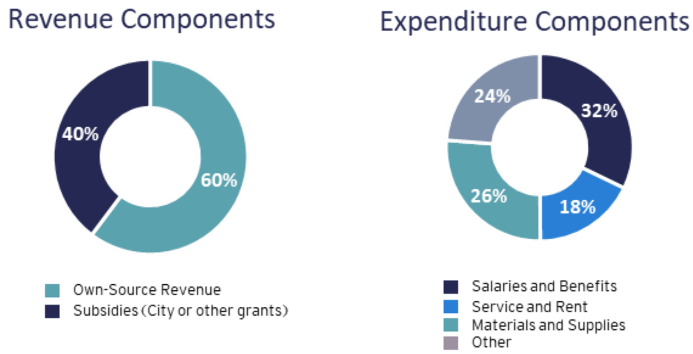
Figures indicating the TCHC Operating Subsidy from the City are based on data provided by TCHC. Data provided by the City of Toronto indicates a $37M increase in 2017, which would represent an increase in operating subsidies provided by the City in real terms.

Overall, Human Services has seen shrinking City expenditure in real terms over the period of analysis, even while the population has grown. When taking into account flow-throughs, overall spending has increased, driven by system growth that has been the result of increased investments by other levels of government.

Human Services programs can benefit from many of the broader transformation initiatives presented below, however, before implementing any changes in these programs, deeper analysis will be required as any expenditure changes could see disproportionate changes in provincial funding because of cost-sharing agreements.

TCHC was considered separately from the remainder of the Human Services category, owing to its size and the unique nature of its operations.

Figure 8 - TCHC Revenue and Expenditure Components



60% of TCHC's budget is through own-source revenues, almost all of which is rents collected from tenants. Overall revenue over the period of analysis has remained fairly static, as a small growth in own-source revenues was offset by a decrease in operating subsidies in real terms. Expenditures have seen a decline, with a CAGR of (minus) -1%, driven by a reduction in spending on materials expenditure, including maintenance. Of note is the continued decline in TCHC's facilities condition index, even as close to 100% of their capital budget is spent annually. A City Staff Report in Fall 2019 recommends a permanent funding model shift to address the unfunded portion of the building renewal capital backlog that currently exists.

Key Highlights

1. Total expenditure decreased, at a CAGR of 1.0% as expenditures were rationalized in the face of growth
   a. Salaries and benefits were 32% of total expenditure and grew at a CAGR of 4.4% largely driven by FTE growth at a CAGR of 3.7%, above population growth
   b. Service and rent increased at a CAGR of 2.4% while all other expenditure categories decreased
2. Minor growth in own-source revenue was offset by a decrease in operating subsidies in real terms
3. Service level data
   a. As part of a long-term trend, the condition of TCHC facilities has worsened since 2015 as materials expenditure (including maintenance) have decreased at a CAGR of 4.0%
   b. TCHC spends close to 100% of their capital budget and facility conditions are still declining
   c. A City Staff Report in Fall 2019 recommends a permanent funding model which addresses the unfunded portion of the building renewal capital backlog that currently exists.

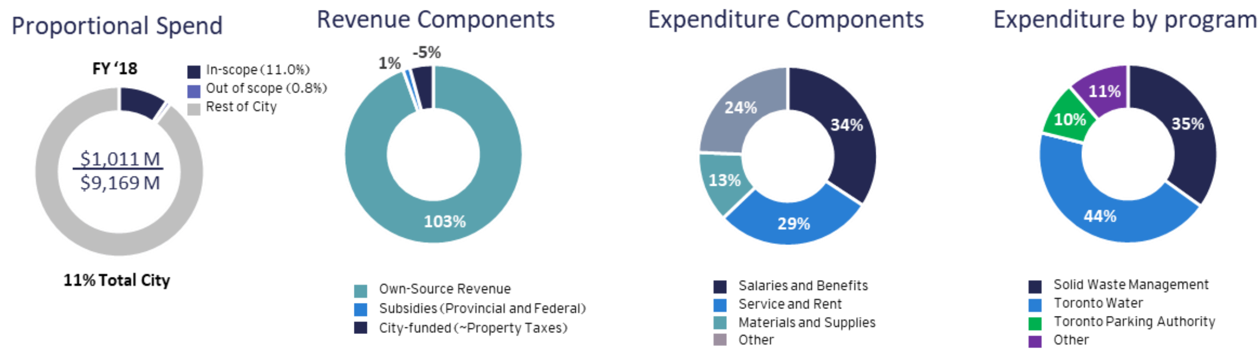
Historic and future drivers of cost or demand:
- Property and rental prices
- Population growth and population mix change, particularly from immigration
- Unemployment and poverty levels
- Provincial operational requirements (mandates on service levels)

	2015-2018 CAGR
Real Expenditure Growth	(1.0%)
Population Growth	2.1%

Commercial

The Commercial category is made up of Toronto Water, Solid Waste Management, the Toronto Parking Authority (TPA), Exhibition Place, and the TTC. For the purposes of this analysis, the TTC is considered separately, because its size, compared to the remainder of the category, would skew any conclusions. For this analysis, the Solid Waste Rebate, which sits in Non-Program Expenditures for City reporting purposes, has been included to provide a true picture of the cost of delivery waste management service.

Figure 9 - Commercial Operating Expenditures and Revenue



Before the inclusion of the rebate, in total, Commercially-focused programs generate enough revenue to pay for their own operations and return a small dividend to the City (through the TPA). With the inclusion of the rebate, there is a component of total expenditure that is paid for through property taxes. Solid Waste Management has developed a plan that will see the rebate eliminated for single family homes over the next two years (TBC), and the Division is studying the feasibility of changes to the multi-residence rebate, which is impacted by the need to compete with private waste disposal firms. Both of these changes will free up funding for other City priorities.

Key Highlights

1. These programs are presented as self funded and include rate-based programs
   a. Toronto Water recovers full cost, including future capital and reserve requirements
   b. Solid Waste Management does not recover full cost when the waste collection rebate is included
   c. TPA generates net revenue, of which 85% is paid to the city
2. Own source revenues grew at a CAGR of 2.9%, with the majority of this growth going to reserves for future capital projects and operational obligations
3. Salaries and benefits declined at a CAGR of 0.8% and headcount increased at a CAGR of 0.9%
   a. Cost per FTE declined at a CAGR of 1.7%
   b. Service and rent charges declined at a CAGR of 2.3%, largely driven by $100m Solid Waste Contracts (2018) that included a large proportion of people costs, with this growth offset by a decline in SWM rebates at a CAGR of 6.5%
4. Service levels
   a. Toronto Water number of main breaks per 100 km of pipe decreased significantly
   b. Solid Waste Management cost per tonne managed increased, driven by higher recyclable processing costs
   c. TPA annual revenue per parking space increased as rates have increased across categories for both on-street and off-street parking

Historic and future drivers of cost or demand:
- Collective bargaining agreements
- Population growth increases the number of users
- Capital expenditure for facilities and vehicles
- Withdrawal of Solid Waste Rebates may impact competitiveness

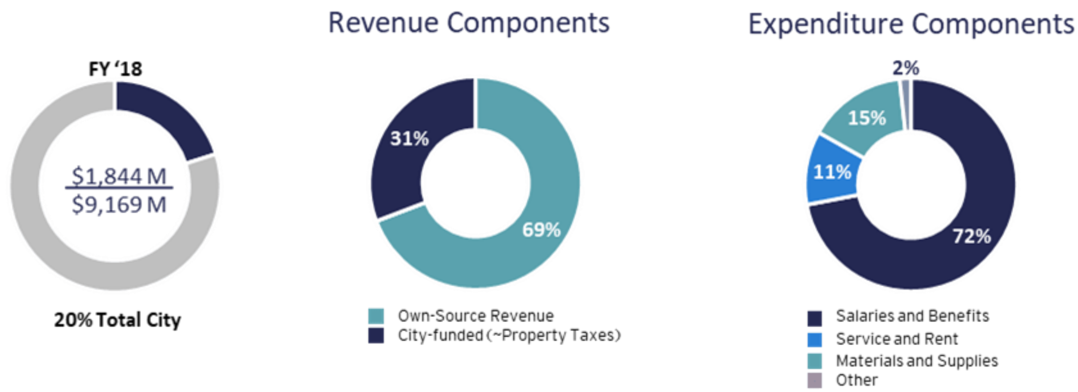
	2015-2018 CAGR
Real Expenditure Growth	(1.9%)
Population Growth	2.1%

Note: All amounts and $ are based on 2018 $ Real unless otherwise stated
Source: 2019 City of Toronto, Statistics Canada, Ontario Ministry of Finance

As with all commercial operations, the divisions that make up this category could benefit from on ongoing focus on driving revenue and operational efficiencies. It should be noted, however, that for Water and Waste, any benefit will accrue to ratepayers, and not taxpayers, and so will not affect the overall fiscal position of the City.

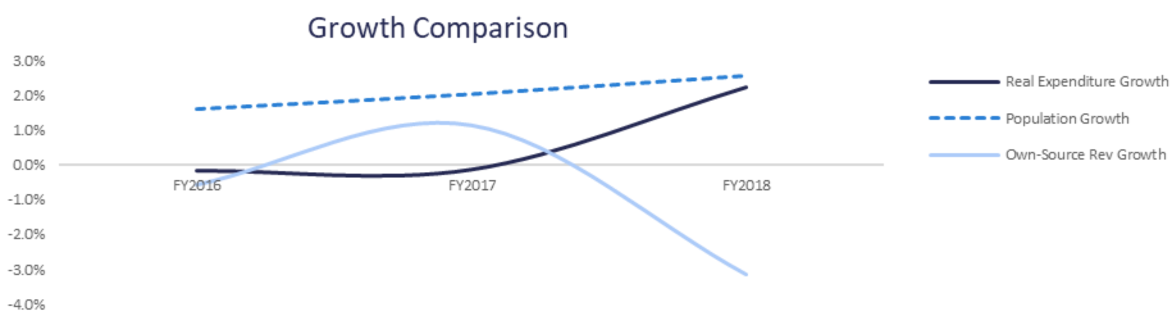
TTC
As mentioned above, the TTC was considered separately because of its size.

Figure 10 - TTC Operating Expenditures and Revenue



Overall, the TTC's own source revenue has reduced at a CAGR of 0.9% over the period of analysis (compared to population growth of 2.1%), as ridership has declined and the ridership mix has changed, with fewer full-fee adult fares. The Auditor General has flagged additional risks vis-à-vis the recent implementation of Presto that management is addressing, including through a planned comprehensive fare study to provide insight into fare revenue pressure and to offer options for response.

Figure 11 - TTC Real Operating Expenditures and Own Source Revenues (real $2018)



As own-source revenues have declined, the TTC has focused on managing expenditures, and over the period of analysis, operating expenses grew at a CAGR of 0.7%. A key component of this was salaries and benefits, which grew at a CAGR of 0.2%, while FTE's grew at 3.2%, suggesting that new employees at the bottom of the wage ladder are entering the organization while older workers at the top of the pay scale are exiting. New operators have also been hired to help manage overtime, resulting in a net decrease of associated service costs.

Key Highlights

1. TTC is reliant on the city for tax-funded revenues to subsidize operations
   a. In 2018 TTC received ~$630m from the city to subsidize own-source revenue generated, this reliance on property tax funding has grown at a CAGR of 5.4%
2. TTC own source revenue has declined at a CAGR of 0.9% as ridership has similarly decreased and the ridership mix has changed with fewer full-fee adults on the system
   a. The increase in Children ridership is as a result of the introduction of free rides for Children 12 and under in March 2015
3. TTC operating expenses grew at a CAGR of 0.7% (total increase of $36m), with growth driven by:
   a. Presto commissions increased from $0 in 2015 to $21.1m in 2018
   b. Salaries and benefits grew by $8m at a CAGR of 0.2% while FTE grew at a CAGR of 3.2%

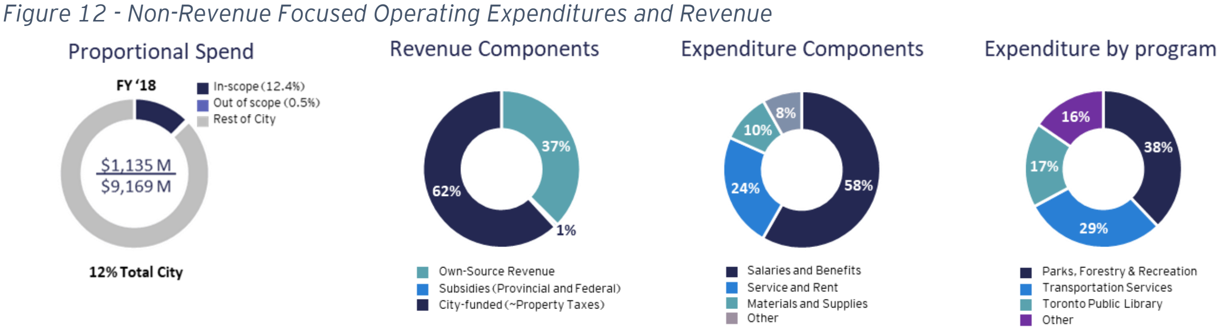
Historic and future drivers of cost or demand:
- Collective bargaining agreements
- Population growth
- Capital expenditure for facilities and vehicles

	2015-2018 CAGR
Real Expenditure Growth	0.7%
Population Growth	2.1%

Non-Revenue Focused Services

This category is made up of Parks, Forestry & Recreation, Transportation Services, the Toronto Public Library, Municipal Licensing & Standards, Toronto Building, Court Services, and 311. In addition, Arena Boards of Management, the Association of Community Centres, Heritage Toronto, and TO Live also fall into this category, but as small external agencies, were not a focus of this report.

Figure 12 - Non-Revenue Focused Operating Expenditures and Revenue



Over the period of analysis, the non-revenue focused services cumulatively shrank expenditures at a CAGR of 1%, primarily driven by an annual reduction of 0.8% in salaries and benefits, while FTE's grew at 0.7%. This was achieved even as overall city population continue to grow, which is important to note, as these programs are all public facing.

Key Highlights

1. Total expenditure declined at a CAGR of 1.0% with Parks, Forestry and Recreation, and Transportation Services being the largest contributors
   a. Salary and benefit costs per FTE decreased across all services with a consolidated CAGR of 0.8% while FTE grew at a CAGR of 0.7%
   b. The cost per capita decreased at a CAGR of 3.1%
   c. The single largest decline in expenditure is in Landscaping contracted services
2. There is an average 58% salary and benefit costs, and significant indirect people costs through IDC's and contracts. Some examples being:
   a. Transportation services has 29% salaries and benefits costs, with 41% spent on contracts such as construction, salting & ploughing, lighting and road maintenance
   b. Court services has 29% salaries and benefits costs; however there are significant IDC's from Legal (38%) that largely constitute FTE costs
3. These programs are largely reliant on property tax funding, but generate own source revenue though licencing/permits and user fees
4. Recreational program enrolments and visits increased while program expenditure decreased.
   a. 2016 increase due to opening of new facilities and the full implementation of free centres
   b. 2017 decrease due to inclement summer weather and facility closure for capital projects
5. Number of library visits and materials in circulation decreased, partially impacted by the 2017 & 2018 temporary closure of the North York Central Library (~8.7% of library visits)

Historic and future drivers of cost or demand:
- Collective bargaining agreements
- Population and business growth
- Major weather events
- Capital expenditure for facilities

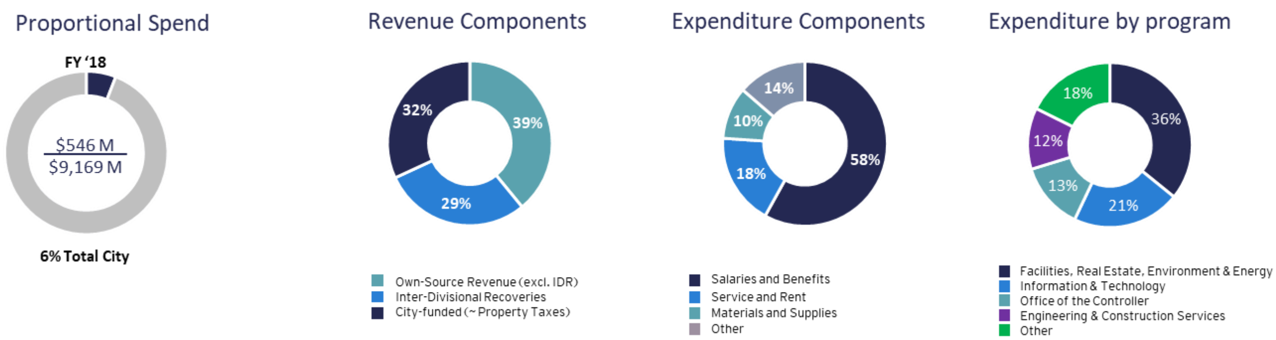
	2015-2018 CAGR
Real Expenditure Growth	(1.0%)
Population Growth	2.1%

Overall, non-revenue focused programs and services will have to continue to focus on expenditure management, as they are limited in the amount of revenue and cost-recovery available to them. As described below in the opportunities section, this can largely be driven through improved use and co-ordination of internal services, and through an increased focus on the contracts let by the City.

Corporate Services

This category is composed of Information and Technology, Facilities, Real Estate, Environment & Energy, CreateTO, Engineering and Construction Services, Fleet Services, and Finance. Collectively, this groups acts as an enabler to outward facing City divisions, allowing those divisions to focus on customer service and service delivery.

Figure 13 - Corporate Services Operating Expenditures and Revenue



Overall, Corporate Services has had a CAGR of 0.5% over the period of analysis; excluding CreateTO, which was newly created in 2018, the CAGR of the remaining divisions is -0.3%. Salaries and benefits are again the largest cost driver in this category, which has held flat, while the number of FTE's has fallen at a CAGR of 0.4%.

As a service provider to other divisions, Corporate Services are dependent for a significant portion of their budget on Inter-Divisional Recoveries (IDR's), which have decreased at a CAGR of 1.8%. This suggests that other Divisions are making an effort to constrain their spend on Corporate Services to manage their own budgets.

Key Highlights

1. Total expenditure growth grew at a CAGR of 0.5%
   a. Excluding Create TO which was new in 2018, total expenditure decreased at a CAGR of 0.3%
2. Salaries and benefits at 58% of total expenditure had a CAGR of 0.0% while FTE decreased at a CAGR of 0.4% resulting in cost per FTE that grew at a CAGR of 0.4%
3. Service and rent costs grew at a CAGR of 1.7%, partially offset by decrease in materials and supplies costs with CAGR of 1.4%
4. Own-source revenue amounted to 39% of total revenue and includes various user fees, sundry, and other revenue, and grew at a CAGR of 4.1%
5. IDR's are significant in Corporate Services as a large portion of expenses are recovered from divisions. IDR's decreased at a CAGR of 1.8%.
6. Energy consumption for corporate buildings has slowly decreased between 2016 and 2018

Historic and future drivers of cost or demand:

- Collective bargaining agreements
- Capital expenditure for systems, facilities and vehicles

	2015-2018 CAGR
Real Expenditure Growth	0.5%
Population Growth	2.1%

A common observation throughout the process of the research and analysis for this report was the existence of shadow functions throughout the City, where divisions continue to have employee, operational, and capital costs in areas that are ostensibly shared services. Finding these shadow functions, determining why they exist, where they are truly necessary and where they can be consolidated, and pulling as much as possible into existing Corporate Services should be a key area of focus going forward.

2.2 Forward Looking Forecast: Status Quo

The forecast identifies potential fiscal risk, primarily driven by a gap between cash flow from operations and an ambitious capital plan. Should actual fiscal conditions reflect the forecast, the City could address a portion of this risk through a series of opportunities to find operational efficiencies and generate increased cash from operations. However, additional risk would remain, and would need to be addressed through other strategies.

As briefly discussed above, the forecast for this report was built on a Free Cash Flow model, that required a number of adjustments to the data provided by the City. Free Cash Flow is a metric often used in financial analysis that focuses on stripping out accounting adjustments including those related to capital expenditures to determine the financial health of an entity based on how effectively it generates excess cash. In the case of private firms, this is cash that is available for distribution to the firm's owners or shareholders; in a public sector context, this is excess revenue that can be re-invested in programs, infrastructure, or returned to taxpayers. Free Cash Flow was used instead of budgets, actuals, variances, or financial statements in order to obtain a picture of the City's finances that focuses on the improvement or deterioration of the City's financial position in any given year. The Free Cash Flow view adjusts for:

Free Cash Flow

Taking all sources of City revenue and subtracting the City's operating and capital expenditure obligations in a given year provides Free Cash Flow.

- Flow-Throughs – the removal of items where the City acts as a financial intermediary but has no control of the amounts or uses of funds; including flow-throughs distorts the overall picture of the City's finances.
- Reserve Movements – draws from reserves to fund current operations or capital expenditures were included, contributions to reserves that are meant for future use were excluded, and any movement related to rate-based programs was segregated, to ensure that ratepayers are not cross-subsidizing taxpayers.
- Capital Plan and Debt Financing – includes capital expenditures intended to be made this year, and the related debt issuance required to support those investments.
- Debt Repayments – payments to the sinking fund have been used to reflect required debt repayments.

In addition, the Free Cash Flow view builds in growth in the City's population, inflation, and known reductions in provincial funding, in an effort to provide a comprehensive view of the City's finances going forward, which can be used by Leadership as an input to decision making. It is important to note that the Free Cash Flow forecast should not be used as the sole source upon which decisions can be made – rather it is a tool to be used in combination with other tools, datasets, documents, and analysis. The overall approach to the forecast was validated by the City, as were the key assumptions underpinning the forecast. Key assumptions include:

- Population growth as per projections from Ontario's Ministry of Finance
- No growth in employees, as per the City's operational practice of absorbing growth

- Annual inflation of 2.2%
- Provincial funding reductions of $79M in 2020, growing to $173M in 2021 and $193M in 2022, including those tied to changes in on-going funding arrangements
- Non-Unionized and Unionized Salary Growth

Based on the free cash flow model, there is significant fiscal risk, which could impact the City as soon as this term of Council. At its core, this is driven by an insufficient amount of free cash flow from operations to fund an ambitious capital plan that cannot be funded by existing reserves. In the next three years, that is the remainder of the current Council term, the City is forecasted to face Free Cash Flow risk averaging $1B on an annual basis.

The impact of this fiscal risk can be shown through analysis of the City's approved capital plan and approved/forecast funding sources.

For the three-year period to 2022, the City's approved capital plan forecasts spending $13.4B in total, sourced as follows:

Table 3 - Approved Capital Funding Plan

Source of Funds (In $B, three-year total)[19]	Debt	Capital From Current (CFC)	Development Charges	Federal Subsidy	Other External Funding	Provincial Grants & Subsidies	Rate Based Programs: Contributions including surplus	City Operations: Contributions including surplus	**Total**
As per Approved Funding Plan	$2.3	$1.4	$1.4	$0.8	$0.1	$1.6	$4.6	$1.2	**$13.4**

Assuming all current service levels are maintained, this funding plan requires $1.2B over three years to come from city operating surpluses, over and above the capital contributions from current operations (CFC) of $1.4B. However, the Free Cash Flow analysis indicates the assumed extra operating surplus will not be achieved, resulting in an overall shortfall of $3.0B over the forecast period.

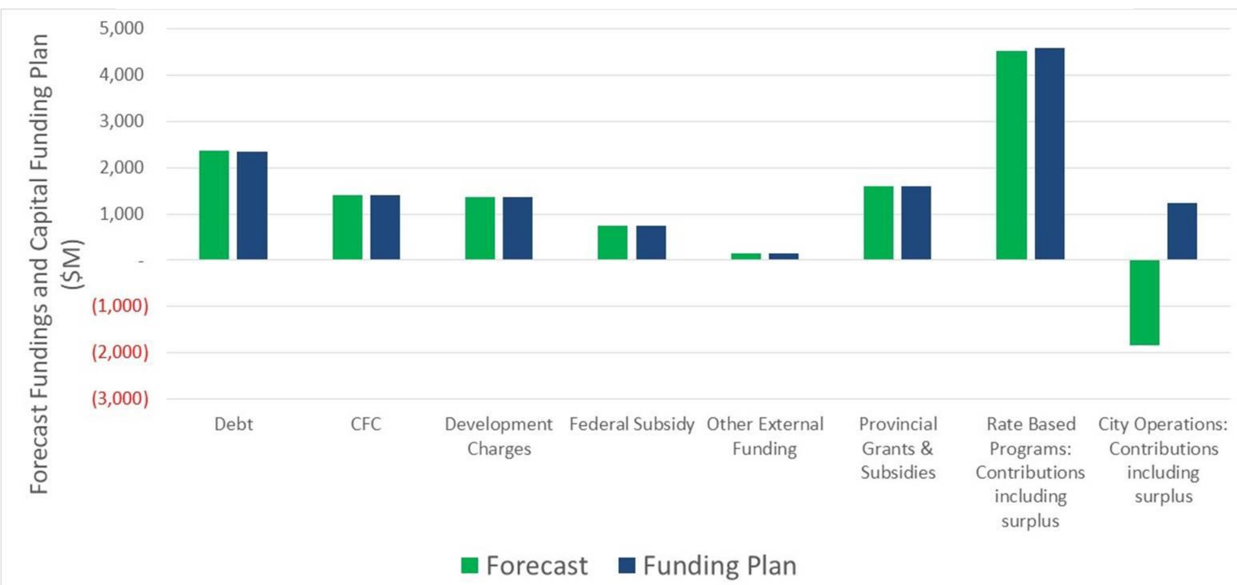
[19] Totals might not add due to rounding

Table 4 - Approved vs. Forecast Funding Plan under Free Cash Flow forecast

Source of Funds (In $B, three year total)	Debt	Capital From Current (CFC)	Development Charges	Federal Subsidy	Other External Funding	Provincial Grants & Subsidies	Rate Based Programs: Contributions including surplus	City Operations: Contributions including surplus	**Total**
As per Approved Funding Plan	$2.3	$1.4	$1.4	$0.8	$0.1	$1.6	$4.6	$1.2	**$13.4**
As per Free Cash Flow Model	$2.4	$1.4	$1.4	$0.8	$0.1	$1.6	$4.5	($1.8)	**$10.4**
Variance	$0.1	-	-	-	-	-	($0.1)	($3.0)	**($3.0)**

It is important to note that the tables above focus just on the Capital plan. Taking the City's operating budget separately, over the forecast period, the City will continue to balance its budget as it always has. The significant finding here, is that under current circumstances and assumptions – including maintenance of current service levels – the City's *capital* plan is unaffordable.

Figure 14 - Approved vs. Forecast Funding Plan



It is also the case that recent historical performance levels suggest the level of expenditure in the approved capital plan is beyond the City's capacity and is unachievable. The City's actual expenditures are typically approximately 2/3 of approved capital spending in a given year. To meet demands to maintain and grow the City capital infrastructure base, thus requires careful attention to both affordability and achievability.

Fundamentally, this is a result of planning across two different time horizons: ten years for the capital plan and a single year for the operating budget. By necessity, the City's ten-year capital plan requires a significant number of assumptions to be made – commitments from other levels of government, economic conditions, and other external shocks cannot be predicted in advance. However, the portion of the plan that relies on city operating surpluses should be validated to confirm that projections are realistic, based on what is known at the time. As identified above, and discussed in further detail below, adopting a system with a single owner of the fiscal plan – both for operating and capital – can help to address this challenge as they City moves forward.

Consistent with this finding from the forecast, a scenario where the capital plan was recast to reduce it to 75% of currently approved levels (and continuing at current assumptions about the City's current capacity in terms of capital plan realization) was considered, which shows that the fiscal situation in the City would stabilize. While this could result in a balanced fiscal plan, it would make it increasingly difficult for the City to build and maintain infrastructure and meet resident needs.

While a reconsideration and restatement of the capital plan is within the range of options the city could consider, it is not explicitly considered as a strategy towards fiscal sustainability in this report. Within any consideration of the capital plan, it is important to note the impact of the recent agreement between the City and Province regarding growth projects at the TTC. Prior to the agreement, the City had budgeted $5.1B in the ten-year capital plan for TTC expansion projects. Of that amount, $1.3B was funded by a designated levy, with the remaining $3.8B coming from unidentified sources. The agreement sees the Province take on the $5.1B in new capital projects, under the condition that the City shifts what it had previously committed towards the TTC's State-Of-Good-Repair budget. The net result is that the City and TTC are now notionally able to fund a larger portion of the capital repair backlog. However, there is still a requirement that the City works with other government partners to secure suitable funding sources.

In whatever consideration of the City's capital plan engaged by the administration and Council, the analysis presented herein suggests that at a minimum, careful attention needs to be paid to:

- Sufficiency of known and forecast funding sources for the whole plan and each constituent part.
- Regional responsibilities currently covered by the City but for which there is not currently attributed regional funding.
- Thorough assessment of total life-cycle obligations on an asset-by-asset basis.
- Objective and transparent approaches to prioritizing dimensions of the Plan based on socio-economic costs and benefits.
- Capacity of the City to execute the capital plan within the most modern and commercially appropriate frameworks.

3 - Opportunities to Deliver Better Value

3.1 Approach to identifying opportunities

Having identified the challenge in front of the City in the short- to medium-term, the question that follows is 'what can be done to address the fiscal risk?' Based on a series of interviews with City and Agency leadership, data analysis, consideration of the experiences of other jurisdictions, and vetting with City officials for feasibility, the opportunities described below are presented to help inform consideration by officials as they determine specific strategies to address identified fiscal risks.

Overall, there were three guiding principles for the development of the opportunity list:

- Potential value – as part of this effort and the overall sustainability of the City's finances, the focus should be on opportunities with significant impact on addressing the fiscal risk the City faces.
- Feasibility – the opportunities should be implementable under the current legislative and policy framework of the City and Province. Where legislative, regulatory, or by-law changes are required, there should be a clear policy rationale for them, beyond short-term fiscal impact. As much as possible, opportunities should be within the purview of the City, and not require the approval of any other actors.
- Implementation – each opportunity should come with the ability to implement it within the window of this council term; while fiscal benefits may not be fully realized by then, the execution of opportunities should not be subject to approval or direction from the mayor and council after the next municipal election.

In addition to these opportunities and thematic areas, a series of structural changes that should be considered were also identified. These structural changes will not, on their own, drive any fiscal benefit, but will make the likelihood of overall success much higher.

3.2 Structural Changes

Budget and Systems Modernization

A significant challenge in analyzing the City's current fiscal position is the difficulty in reconciling budgets to actual spending numbers. Currently, the City's budget and its actual financial reporting are prepared using a different set of assumptions which requires an extensive reconciliation process to ensure comparability. The City's financial statements are prepared in accordance with the rules set out by the Public Sector Accounting Board (PSAB) and are consistent with standard approaches of other municipalities. The budget is used to plan the cash requirements of the City and to set the levy requirement and the tax rate increases.

When considering the specifics of City's financial structure, the challenge in comparing budget to actuals is compounded by several factors, including:

- The treatment of items that net to zero: in the budget, some items in this category (for example, School Tax Levies that are collected on Property Tax Bills and flowed through to the Provincial Government) are not presented at all, whereas in the year-end actuals, both the collection and flow-through are presented. Conversely, Inter-Divisional Charges and

Recoveries (which also net to zero), are presented in the budget but not in the year-end financial statements.

- In-year variance reports present a third view of the City's fiscal position, that does not directly align with either the budget or the year-end statements and would require a different set of adjustments to accurately understand the City's true position at any given time.
- Agencies must submit their budget requests in the same format and at the same level of details as City divisions; however, they do not provide actual spending data to the City at year-end in the same format. This makes conducting analysis on the City's actual spending against the budget very difficult, as approximately $3.93B, or 29% of total spending (as per the budget as presented) is not provided at a level of detail that allows for comparison or analysis.
- Historically, budget preparation has followed a ten-month process, with focus being on achieving one-year fiscal targets that align with a desired increase in property tax rates (recently limited to inflation), to the detriment of analyzing longer-term implications. Taken together, reporting practices and timelines result in a financial approach that puts a disproportionate focus on the budget rather than an ongoing focus on results, outcomes, and cost and demand drivers that allow for a regular revisiting of allocative and administrative efficiency, service targets, and service delivery models.

More specifically, in terms of the budget, this means taking a true multi-year view, where population growth, service changes, and future spending increases or reductions are taken into account and planned for in advance. As context, priorities, or policies change, these can be taken into account and adjustments can be made, but it is critical that the City have the ability to get a true forward view on a regular basis. This view needs to be consistent over time, and while it is up to the City to decide if any of the current methods are the right one, or if Free Cash Flow is the most valid, there needs to be a multi-year baseline to facilitate effective budgeting.

This also means that systems across the City need to be reviewed to take into account the need for decision makers to have consistent, timely, and accurate information on an ongoing basis. While there is certainly a place for systems that meet the specific business needs of a given program or service, the ability to consolidate information quickly and accurately must be a key consideration for any technology upgrades or changes.

The City has begun a multi-year budget modernization process that will make the budget document a more efficient and effective tool in helping support strategic, multi-year decision-making. This process has begun with the 2020 budget process whereby the budget process has been simplified to increase the understandability of the information that informs decision making. The budget modernization process in the next couple of years will create the foundations for a multiyear outlook.

True Ownership and Accountability for the Fiscal Plan

Currently, ownership of the fiscal plan is distributed across the City. The annual budget is created on a bottom-up basis, with each Division and Agency responsible for their portion of the overall City budget. Finance compiles the figures and works with each Division and Agency to manage pressures and match expenditures to revenues during the budget process, and during the year, compiles variance reports for Council, again working to match expenditures to revenues. However, there is limited ability by any single actor within the City to control the overall budget or allocate or reallocate revenues or expenditure reductions.

Further, because budgets are built on a divisional basis, it is difficult to build in funding or count on savings generated by initiatives that impact multiple Divisions. As an illustrative example, consider contract compliance, which is discussed in further detail in the next section. The experience of other jurisdictions and private sector firms suggests that without rigorous review and oversight of contracts, value is lost through the delivery of goods and services that is below the level contractually agreed to. Implementing a comprehensive review of contracts should be an obvious strategy, however there are two challenges to successful implementation and benefits realization.

First, there is no single owner of contracts across the organization, so identifying a single point of accountability for the execution of the program and the realization of savings is challenging. Second, the budget process as it currently exists would look to allocate savings to specific divisions and programs. For something like contract compliance, where it is unclear exactly which divisions can realize savings until the work begins and savings will potentially accrue to many divisions, it is a challenge to build a savings target into the budget.

A further challenge is the current approach Council uses to consider new initiatives or strategies, which are generally passed without detailed consideration of financial impacts and how they fit into the overall context of medium- to long-term City finances. These in-year changes will also defer consideration of finances to the budget process, meaning that strategies are often approved, without accompanying finances. This leaves staff to use the budget process to reconcile the ability to fund strategies with the competing initiatives passed over the course of the year.

A potential solution to this is to implement what the Federal and Provincial governments refer to as a 'management board'. While the terminology and the exact structure would have to be determined by the City, a management board-like body should:

- Be composed of qualified staff, reporting to Council, likely through Budget or Executive Committee.
- Clearly assess the short-, medium-, and long-term fiscal impact of all initiatives being considered by Council.
- Create a methodology for budgeting from savings from cross-divisional initiatives and have the authority to hold Divisions accountable for savings targets.
- Establish ownership of the approved capital plan, and institute a process to vet projects for inclusion in the budget, based on the degree of readiness to commence with that project; as an example, a threshold of design completion could be set and projects not able to meet the threshold could be deferred to the next budget year. A version of such a 'stage-gating' approach would be consistent with leading practice in many jurisdictions.

The shift to this type of structure would require buy-in and a cultural change on the parts of both Staff and Council, who could see this as an effort to centralize control at their expense. What is critical to understand is that the effort to centralize is not to remove control from where it currently lies, but to provide those some groups and individuals with better information and more flexibility to make decisions and run their service line more effectively.

Clear Delineation of Roles and Responsibilities

Throughout the budget and reporting process, there is a blurring of the roles and responsibilities of the key actors in the process. Specifically:

- Council often engages on operational decisions, in some cases dictating headcount at the program level. This differs from its role as per the City of Toronto Act, which focuses on representing residents, oversight, control, and setting policy and direction.
- The manner in which the City has interpreted legislation results in Division Heads having to seek approval for a number of minor variances to their budget, including, in some cases, shifting funds or staff in a manner that has no net financial impact.
- Budgets are developed on a bottom-up basis, with each division and agency having responsibility for their own portion. This makes it virtually impossible to build initiatives of an inter-divisional nature into the budget, and to make them mandatory.
- Agencies report to their Boards of Directors, not the City. This means requests and direction from Boards takes precedence over direction from the City, even when it comes to working with the City on inter-divisional initiatives, or even providing information in a timely and useful manner.

Between Council, City Leadership, Divisions, and Agencies, there needs to be a clear understanding of the roles and responsibilities of each, so that no groups are working at cross-purposes or overstepping their bounds.

- Council – Responsible for policy setting and oversight, Council's role is to make informed decisions about the trade-offs required to deliver services to residents and business within a finite set of resources, and to ensure those decisions are followed through on. While Council has the ability to get involved in operational decisions at the Division or Agency level, they should generally leave those to staff as long as staff is following the direction provided and meeting any goals or targets set out.
- City Leadership – Responsible for taking Council's direction and translating it into a series of goals and targets and informing Council of the implications of decisions they are asked to make. City Leadership should also play a role in setting corporate priorities and targets, and enforcing compliance with those within the City.
- Divisions and Agencies – Responsible for meeting the goals and targets set out by Council and Leadership, Divisions should have the flexibility to run their business line as they see fit, as long as they are following direction provided.

As part of the budget modernization discussed briefly above, the City is working to more clearly define roles and responsibilities moving forward.

Staffing Flexibility

Currently, Council approves staffing levels on a Divisional and Program level, and also has to approve any material change to those levels, or transfers of staff capacity between programs or Divisions. This creates a lag between the identification of need for a role and the ability to fill it, and denies flexibility to Divisional leadership to achieve their goals within the resources they've been given. In fact, the current structure incentivizes the use of outside contractors and contracted services, which can be less efficient if done on an ongoing basis unless there is evidence of corresponding increases in productivity and/or risk transfer.

Instead, Council should approve funding and desired service levels, and allow Divisions to adjust their headcount as necessary. To be able to keep a central view on staff levels, one option would be the creation of a Human Resources Committee, made up of City Leadership and reporting to Council, which could own the corporate pool of all positions made vacant by attrition, and require any Division seeking new staff to make a case for funding, essentially creating an internal marketplace for new positions.

Putting in place a centralized and coherent process around attrition is key to capturing the value of the opportunities outlined later in this report in a manner that minimizes involuntary layoffs and staff anxiety. Given that the City has an average attrition rate of just over 5% for the last five years, there is a significant opportunity to manage attrition to the City's overall financial benefit. This is particularly true if modern approaches to administration and service delivery enhance productivity while maintaining or even enhancing service level outputs.

An added issue is that the City of Toronto does not currently have a voluntary separation program, which would allow staff to apply for voluntary separation in exchange for an upfront incentive payment. Limited time voluntary separation programs are a standard practice for private sector firms looking to reduce long-term staffing costs without resorting to layoffs. The Government of Ontario recently offered voluntary separation packages by application to its non-bargaining staff, which 3,300 people applied for. The Province approved 2,400 packages at a one-time cost of $190M, which is expected to drive annual savings of $215M.[20]

In 2011, the City offered a voluntary separation package to all staff indicating that applications would only be approved in those cases in which a position could be permanently eliminated. Data indicates that 230 voluntary separations were approved, out of over 1,000 applications, with an annual savings of $20M and a one-time cost of $13M. Rather than repeating the 2011 experience, which resulted in low uptake, the City could consider a new, targeted voluntary separation program, especially in those areas where productivity enhancements and technology can reduce manual effort. It would be important to target the incentive only to those divisions and positions that have a reasonable prospect of being accepted, so as to minimize any negative impact on morale. The cost and benefit of the voluntary separation program would depend on the parameters the City decides on, including eligibility criteria, the size of the incentive, and the length of time the program accepts applications.

Allocating Savings

As a policy, the City captures all efficiencies and savings found by Divisions, and Council can then reallocate the funds to whichever priorities they choose. The City should consider changing that policy so that a portion of funds remains with either the Division or Leadership to be used to fund transformation projects on an ongoing basis, with the remainder continuing to be allocated by Council to priorities. The current policy does not provide an

[20] Ontario Government Saving Taxpayers $215 Million Annually Through Public Service Modernization. Government of Ontario.

incentive to realize savings; in fact, it encourages maximizing spending to meet the budget set at the start of the year.

Business Process Reengineering

For every transformation, especially those that are related to taking a digital approach and leveraging technology solutions, there needs to be a corresponding focus on business process reengineering. This focus on rethinking how the City functions, and where the pain points are for residents and staff should be critical portions of every implementation plan going forward. Reconsidering processes from the ground up before layering on new requirements or technology is critical to successfully harvesting anticipated productivity or revenue gains, as it allows for a consideration of the value of a given process or function, and whether it needs to exist at all. In other words, the City should spend time considering whether it should be doing certain things, as much as it should focus on how to do those things better, or on automating them.

In addition, proper consideration of business processes will help to ensure that the City is maximizing the value of its investments. Giving proper consideration to whether and how new processes or technologies will improve the resident and staff experience will help to avoid future situations where there is limited take-up or value driven.

At its core this approach to business process reengineering, a digital approach, and technology would put the city's residents at the centre of every policy, regulation, program, process and delivery model, regardless of whether that is for administrative functions inside the City or if it has a direct service impact on residents. This approach also requires a culture that shares data and information across Divisions and Agencies as the default position; this is particularly important for the use of data across Divisions to enable an improved service experience. A framework for process reengineering, information sharing, and consideration of the resident experience should be completed as a priority as part of the ongoing work of the Customer Experience Transformation Office.

Mandated Participation in Corporate Activities

The final structural change is around how and when Divisions and Agencies do or do not participate in activities supporting corporate priorities or transformation. In general, participation is not mandated, or when mandated, not strictly enforced. As an example, the City has been moving towards increased standardization and centralization of corporate functions as an efficiency measure. However, for a number of these functions, shadow capacity exists around the organization, and continues to be funded through the budget process.

As another example, the City recently undertook a category management and strategic sourcing initiative, meant to realize substantial savings. However, because participation was not mandated, there have been cases where opportunities have been identified, but Divisions have chosen not to follow-through on execution. As a result, there are identified and validated savings opportunities that are currently not being executed, pulling away resources from other areas.

This lack of participation extends to Agencies as well. While most have positive working relationships with the City, in the absence of clear shareholder direction from Council, their participation in any corporate initiative is voluntary. Council should be more willing to provide explicit direction to Agencies, especially in those areas of back-office efficiency identified below, where there is the potential to realize significant fiscal benefits.

3.3 Thematic Areas to Support Fiscal Sustainability

Across the City, there are five thematic areas into which all of the opportunities have been grouped, as follows:

- Collection & Enforcement – In the absence of a counterbalancing policy objective that has been explicitly decided, the City should always maximize the collection of what it is owed, either financially or in terms of goods or services being purchased.
- Productivity – The City should modernize its approach to internal and external service delivery, to optimize the direct cost of service. This includes not only back-office efficiency gains, but an increased focus on improving the experience of resident interactions with the City through embracing a co-ordinated digital approach to service delivery.
- Workforce Optimization – Within the constraints of labour agreements, the City should look to restructure labour force deployment to optimize cost and delivery effectiveness. This does not necessarily entail a reduction in overall headcount, but rather, a continual focus on efficiency and productivity.
- Alternative Business Models – The City, its Divisions, and Agencies should take an explicitly commercial approach to a wide variety of services to increase efficiency and revenues. In some cases, this will require a restructuring of key dimensions of Divisions or Agencies.
- Infrastructure & Asset Management – The City should optimize the planning, delivery, and financing of the City's capital investment requirements, including through the consideration of increased use of non-traditional procurement.

3.4 Individual Opportunities

Below is a consideration of a series of options, aligned to the categories above, that the City could choose to execute in a move towards fiscal sustainability.

Rigorous Contract Compliance

Category	
Collection and Enforcement	
Current State	**Opportunity**
According to City financial data for 2019, the budgeted expenditure for contracted services across the City of Toronto is $1.26B. Just over half of this amount can be attributed to large, multi-year, construction contracts that are where value leakage typically occurs. Certain service-oriented contracts have also proven to be challenging for the City to manage, according to Auditor General reports.[21,22] These particular cases have resulted in the loss of millions of dollars every year due to poor contract oversight practices.	A vendor management program could be established to streamline supplier management operations, which would provide insights into contract and vendor performance for improved decision making, and improved contract management through KPI monitoring. The City could institute a contract compliance review of all City contracts. The benefit to the City could occur in three ways: • Savings, realized through the prevention of full payment for items or services received that did not meet with the agreed standard; • Recoveries, through negotiation with suppliers of previously paid invoices or contracts; and, • Value gain, through delivery of compliant goods or services, that would have otherwise not been received.
Service Impacts	**Equity Impacts**
Positive – increasing value from contracts for goods and services or financial benefits that can be reallocated to services.	There are no anticipated equity impacts.
Alignment to Previous City/Council Direction	
Aligns with Principle 2 in the Long-Term Financial Plan (LTFP) regarding improving value for money. Specifically, under the 'Transform procurement' section, the following is noted: "Transform procurement policies, processes and technologies in order to achieve the highest value for money for all procurements."	
Time to Benefit Realization	**Implementation Considerations**
Within six months of implementation.	Fully within control of City Administration, this opportunity requires a decision to proceed, either with existing City resources or external support.
Risks and Dependencies	
• Contracts that have been reviewed where payment has been prevented may result in disputes with the contractor, which might create additional cost and/or vendor relations issues	

[21] Ensuring Value for Money in Tree Maintenance Services, Auditor General Report (April 2019)
[22] Audit of City Cleaning Services Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services, Auditor General Report (June 2016)
[4] Enhance Focus on Lease Administration of City-owned Properties, Auditor General Report (June 2018)

Means Testing

Category	
Collection & Enforcement	
Current State	**Opportunity**
One of the City's Strategic Actions that built on the 2002 Strategic Plan is to "improve social and economic inclusion within our communities." One of the ways the City attempts to do this is by making an effort to ensure that residents can access services regardless of financial means. In some cases, the City has chosen to do that through means testing (for example, the Fair Pass Discount Program, where adults on Ontario works or the Ontario Disability Support Program receive discounted TTC fares, or the Welcome Policy, that provides fee subsidies for low-income individuals and families to help them access City Recreation programs). However, there are other cases, where the City has chosen to offer universal discounts and fee waivers, regardless of ability to pay.	The City could develop and adopt a consistent set of principles that will guide the application of means-testing of all programs. This could include the adoption of consistent measures to determine who qualifies for support. The City could then move to means testing for certain universal programs, so that the principle of increased access is adhered to, but those who have the ability to pay for services continue to do so. Two specific areas that could be considered are the free programs offered by Parks, Forestry & Recreation, and the fare discounts offered by the TTC.
Service Impacts	**Equity Impacts**
Neutral to Positive – Service levels will not be reduced, and may be better targeted.	Detailed further examination against specific criteria would need to be conducted. Individuals that were previously receiving fee waivers or discounts automatically would now have to apply for them; as a result, some individuals could lose out on the waiver or discount. This can be mitigated through a communications and outreach effort, and by building on current processes in place for the Welcome Program and Fair Pass.
Alignment to Previous City/Council Direction	
The ongoing Human Services Integration Project is a multi-year engagement that is looking to consolidate service delivery for three of the City's income support programs across three divisions (Child Care Fee Subsidy, Rent Geared to Income, Ontario Works). It is examining the ways the City prices and subsidizes different services, which includes evaluating the feasibility of a city-wide means testing function and centralized service locations. This opportunity aligns to Principle 3 of the Long-Term Financial Plan, which aims to secure adequate and fair revenue.	
Time to Benefit Realization	**Implementation Considerations**
Greater than one year.	Requires Council approval. Further study required to ensure equity-seeking communities are not harmed; use of technology should be examined to simplify process.
Risks and Dependencies	
• Means testing must be implemented with due diligence so as to not impact equity seeking groups negatively • City is currently undertaking an income verification pilot with the CRA; successful completion and broader rollout will enable savings	

Review Development Charge Exemptions

Category	
Collection & Enforcement	
Current State	**Opportunity**
The City collects development charges (DCs) every year which go toward growth-related infrastructure and facility needs. The fundamental principle underlying DCs, as described by the Provincial Government, is to ensure that growth pays for growth. However, under certain circumstances, developments are exempt, and the City foregoes revenue it would have otherwise collected. A 2018 report to Executive Committee indicated that "DCs do not fully fund the cost of growth-related capital infrastructure. Statutory constraints limit the City's ability to recover the full cost of growth from DCs. As such, a portion of the cost of growth is funded from the City's property tax base and user fees".[23] As noted above, through Council policies, there are also non-statutory constraints that prevent recovering the costs associated with growth.	In 2018, the City quantified non-residential exemptions contained in its own bylaw at approximately $89M in foregone revenue[24]. This amount fluctuates depending on the volume of development activity. There is an opportunity for the City to recover foregone DC revenue by amending its DC bylaw to remove these exemptions. This could begin with an analysis of the impact of keeping or removing the commercial and industrial incentives that were structured at the time of amalgamation. Further analysis should be conducted to confirm whether incentive policies are still required. City staff are preparing a DC exemption and waiver review for Council that might produce revised estimates and additional information for consideration. This, along with the Provincial changes to DCs as a result of Bill 108, presents an opportunity for an incentive/exemption review.
Service Impacts	**Equity Impacts**
Positive – improving the capacity of growth funding growth frees up existing tax revenue for other priorities, including service enhancements.	There are no anticipated equity impacts.
Alignment to Previous City/Council Direction	
City Council adopted the City's current DC bylaw in April 2018 which includes the exemptions. Under Principle 3 of the Long-Term Financial Plan, 'Secure Adequate and Fair Revenue,' it is noted that the City's exemptions on DCs leads to reliance on property taxes and rates to cover the gap, which can lead to a "...downward spiral of deferred expenditures and falling service levels". Further, a 'Key Action' for Council is to ensure that development levies appropriately pay for growth.	
Time to Benefit Realization	**Implementation Considerations**
Greater than one year.	Requires council approval; further study on the overall competitiveness of the City is required.
Risks and Dependencies	
• The overall City's competitiveness (considering both DC's and property taxes) could suffer compared to neighbouring municipalities. According to a 2017 consultant's report, commercial office development in downtown Toronto is strong and could likely absorb some additional costs without major market disruption.[25] However, it is also noted that a full DC rate for office development could have a significant impact on profitability. • Impacts of Provincial regulations stemming from Bill 108 could have significant impacts on any changes the City considers to Development Charges	

[23] Staff Report to Executive Committee: Development Charges By-law Review. City of Toronto.
[24] Sum of non-residential commercial office and industrial use exemptions only. Staff Report to Executive Committee: City Programs Providing Tax and Fee Waivers, Discounts, Rebates, Deferrals and Exemptions. City of Toronto.
[25] Financial Tools Analysis Report, December 2017. Hemson Consulting Ltd.

Embed Digital Principles in Service Delivery

Category	
Productivity	
Current State	**Opportunity**
The City of Toronto has been progressively increasing the use of technology to enhance resident and business service delivery. The City is also in the process of implementing a Salesforce CRM solution at an enterprise level, and in 2018 began the development and implementation of an integrated *Registration, Permitting and Licensing* solution.	From an internal services perspective, the City and its Agencies have considerable scope to introduce and expand the use of emerging technologies such as Robotic Process Automation (RPA) and Intelligent Automation (IA) to ease and accelerate back-office functions. The City can also take further steps to make services accessible through digital channels to enhance customer experience, lower the administrative cost of service delivery, and allow staff to focus on more complex cases; moving an expanded range of 311 inquiries and services online could be a first step.
Service Impacts	**Equity Impacts**
Increased automation and digitization should improve access to services for residents; in-person and phone services will also continue to exist, resulting in minimal impact for those who will not access online services	There are no anticipated equity impacts, assuming that channel access would still be provided for individuals without access to required technology.
Alignment to Previous City/Council Direction	
This opportunity strongly aligns to Principle 2 of the Long-Term Financial Plan: Improve Value for Money. In particular, it supports rationalizing human resources and staffing, supporting reductions in agency and corporation costs, and investing in modernized government.	
Time to Benefit Realization	**Implementation Considerations**
For RPA and IA, as little as three months. For digitization of services, likely greater than one year.	Some changes may require council approval, especially those requiring significant investments in technology. Will likely require external support and expertise. To maximize benefits from digital, the City's Customer Experience Transformation Office (CETO) should be empowered, as part of the CETO Roadmap, to identify, quantify and measure benefits realization from the existing portfolio of projects as well as for future digital initiatives.
Risks and Dependencies	
• Labour groups may have concerns due to potential changes to workforce complement and staffing reductions. The City must also be prepared to manage potential public opposition or concern over any consolidation undertakings. • The opportunity may also face agency pushback regarding potential autonomy concerns resulting from the integration, as well as any policy, regulatory and legal changes that may be required to consolidate an agency service within a City division • Engaging in process improvement activities in parallel with implementing RPA can generate increased benefits versus simply automating inefficient or ineffective processes • Instituting effective technology selection processes will reduce risk and enhance the flexibility of developing applications and sustaining benefits	

Expand Shared Services

Category	
Productivity	
Current State	**Opportunity**
The City implemented a shared services project for a number of internal services beginning in 2013. It was estimated to have created cumulative efficiencies of $37M as of 2016. However, there are still instances of common services and operations that are replicated across various divisions and clusters. The duplication of functions is especially noticeable between agencies and the City.	Building on its experience of shared service implementation, the City could continue to centralize corporate services and reduce duplication of efforts across the City. In combination, the City could expand the client base of existing and new shared services to agencies and corporations. Consolidation of resources could improve interaction, communication, and responsiveness while providing a single "corporate-wide" view to support decision making instead of operating in silos.
Service Impacts	**Equity Impacts**
Positive – delivering internal support services more efficiently can allow resources and staff time to be redirected to external service delivery.	There are no anticipated equity impacts.
Alignment to Previous City/Council Direction	
The City has implemented a shared services model across functions including payroll, finance, human resources, fleet, and IT, that have reduced the overall cost of providing these services. This opportunity also aligns to Principle 2 of the Long-Term Financial Plan: Improve value for money. In particular, it supports rationalizing human resources and staffing, supporting reductions in agency and corporation costs, and investing in modernized government.	
Time to Benefit Realization	**Implementation Considerations**
As quickly as within six months for internal services; greater than one year for Agencies.	For internal services, fully within control of City Administration; expansion to Agencies may require Council approval or direction. Including Agencies will require creation of a new governance structure and cost allocation methodologies.
Risks and Dependencies	
• Continuous process improvement and re-engineering would be required until the new shared services model reach the desired level of maturity • Stakeholder consultations and continuous engagement is critical to developing a robust operating model framework for the shared services entity	

Expand the Administrative Penalty System (APS) and Improve Court Collections

Category
Productivity

Current State	Opportunity
The City is responsible for administering and prosecuting parking offences. To drive efficiencies and align with other jurisdictions, the City implemented an Administrative Penalty System ("APS") for parking violations that shifted the dispute process from a court-based system to an administrative model that takes place almost entirely outside the court system. The City also has a Red-Light Camera program and is planning to start an Automated Speed Enforcement Program, both of which will generate a high volume of tickets (currently estimated at over 200,000). Disputes will have to be managed through the court system.	Expanding the APS to Red-Light Cameras and Automated Speed Enforcement could reduce demand for court services and improve processes will help the City manage current and future court costs. Adoption of the APS system could reduce demand on the court system, improve customer service and realize incremental revenue. The Provincial Government would have to agree to the change, and would have to set up a regulatory framework that mirrors the APS for parking tickets, where the municipality gets to keep the revenues generated.

Service Impacts	Equity Impacts
Positive – expected improvements to customer experience.	No equity impact anticipated

Alignment to Previous City/Council Direction
On 16 July 2019, Council approved that a request be made to the Province to make policy changes so the City may adopt an APS business model for offences enforced through the use of Automated Speed Enforcement and Red Light Camera systems. Expansion of the APS business model also aligns with the City's Long Term Financial Plan in the areas of improved value for money and investing in modernized government.

Time to Benefit Realization	Implementation Considerations
Greater than one year.	Will require Provincial legislative and/or regulatory changes. City will also have to consider ability of existing technology platforms to support increased volume and variety.

Risks and Dependencies

Opening a dialogue with the Provincial government on expanding APS could also provide the opportunity to engage on other policy and regulatory changes that will enable court services to function more efficiently, primarily by improving revenue collection through:

- Adding defaulted fines to the Canada Revenue Agency's Set-Off Program agreement, as is done in Alberta
- Implement legislative changes to enable collection of defaulted fines through property tax rolls for jointly owned property
- Assisting the City in accessing information in the Province's electronic land records database at in order to improve the ability to match City debtors with owners of real property in Ontario.
- Provincial Ministries and Agencies to add the requirement to pay all outstanding fines as a condition of services including the issuances of any licences and permits.

Optimize Procurement

Category	
Productivity	
Current State	**Opportunity**
The City is currently in the process of transforming procurement to include Category Management and Strategic Sourcing with the goal of reducing spend, improving service levels, and developing mutually beneficial supplier relationships. The current aim is to achieve $41M in recurring annual savings within three years. An external consultant has been engaged by the City to work with key stakeholders to develop a prioritized list of opportunities through spend analysis. With in-scope spending of approximately $700M (including $100M of TTC spend on bulk fuel procurement), the City is on track to meet the savings target by the end of 2020.	The opportunity for increased savings can be driven on several fronts: • Further savings could be realized by expanding category management to more categories. • Category management could be mandated for Divisions, increasing the ability to optimize value, and accelerate time to realized savings. • The efforts to date have largely focused on Strategic Sourcing; Additional value levers include demand management, process re-engineering/improvement, and operating model changes • Procurement modernization could be fully expanded to Agencies and Corporations.
Service Impacts	**Equity Impacts**
Positive service impacts through faster and more visible procurement process, allowing strategic initiatives to be delivered sooner.	No equity impacts are anticipated.
Alignment to Previous City/Council Direction	
Council approved the commencement of the Supply Chain Transformation Program in 2015. The Long-Term Financial Plan had recommended a three-year sourcing procurement transformation based on a savings target consistent with comparable market benchmarks and maturity. Principle 2 of the Long-Term Financial Plan: Improve Value for Money through Goods and Services Procurement noted the City may not be achieving full value in its competitive bid process due to the high barriers to entry in the public market place. It recommended the strategic sourcing currently underway with an emphasis on modernizing procurement to maximize value for money.	
Time to Benefit Realization	**Implementation Considerations**
Immediate.	Strategic sourcing fully within control of City Administration; will likely require external support to achieve results rapidly.
Risks and Dependencies	
• Ongoing challenges around tracking contract compliance and having visibility into full organizational spend • Transformation of procurement function within the City would require additional FTE's focused on strategic sourcing, as opposed to transactional support; City Council could question need for additional FTEs and request procurement transformation happen within existing headcount • Council approval may be required to allow project scope expansion and to properly fund staff and external support requirements	

Childcare

Category

Productivity

Current State

Children's Services purchases services from 639 licensed child care centres to deliver childcare for children whose families receive fee subsidies. The City directly operates 52 licensed child care centres (representing 3% of subsidized spaces in the City) and inspects the City-run and contracted centres.

As the Auditor General reported in 2018, City-run centres charge the highest fees and the centres have an annual operating shortfall. The Auditor General suggested that shifting all City-run childcare to non-profit providers would save $28M annually, enough to provide 2,200 incremental subsidies.

Opportunity

The City can look to transition out of operating Childcare spaces, and transfer the operations and the related capital assets to non-profit providers. Based on the experience of other jurisdictions that have undertaken this transition, the full savings identified by the Auditor General are unlikely to be realized, as there are policy and equity reasons for the City to operate childcare in some cases.

The first step in the transition would be to engage non-profit childcare centres in the equivalent of a market sounding to determine their interest in and ability to run the existing City-run childcare centres.

Service Impacts

Positive service impacts as more children could receive subsidized childcare; the Auditor General's data suggests that contracted childcare centres are non-compliant with regulation at approximately the same rate as City-run centres.

Equity Impacts

Specific impacts would need to be analyzed. Positive impacts might include more children receiving subsidized childcare and lower rates for the families that pay for childcare at these centres.

Since the biggest driver of the cost differential between City-run and non-profit childcare is the hourly wage paid to City staff, a negative impact might be felt by the early childhood educators who transitioned to non-profit providers.

Alignment to Previous City/Council Direction

City Council considered the Auditor's Recommendation in 2018 and asked Children's Services to further study the recommendations before acting, including considering the non-financial benefits of City-run childcare.

Time to Benefit Realization

Greater than one year.

Implementation Considerations

Requires Council approval. Further study of the profile of families accessing City-run childcare, the state of capital assets supporting childcare delivery, and the willingness of non-profit operators to take on delivery will be required.

Risks and Dependencies

- Successfully transitioning City-run childcare will require non-profit operators to take on the current suite of City childcare operations. This might require the City making investments in capital that non-profit providers may not be able to manage.
- Childcare providers in City-run centers are unionized, and collectively bargained provisions around transitioning employers will have to be respected.
- An impact assessment on the children receiving care should be conducted before any transition, with a special focus on identifying equity-seeking communities and children with special needs.
- Potential to share lessons and experience with peer jurisdictions that have successfully implemented similar changes (e.g., Region of Peel).

Rostering and Time and Attendance

Category	
Workforce Optimization	
Current State	**Opportunity**
There is no consistent approach to time and attendance or rostering across the City, with some Divisions still tracking schedules and time and attendance manually. Errors and over- and under-payments occur on a periodic basis and require manual intervention to be fixed. A technology solution for time and attendance has been in the process of being rolled out across the City since 2015, but is not complete as of yet. In addition, a number of City and agency employees are compensated on an hourly basis and are eligible for overtime; overtime pay across the City, TTC, and TPS amounted to $172.9M in 2018.	The implementation of a time and attendance system for hourly workers, and improved management of payroll rules have proven to reduce overall compensation spend by up to 5% in other implementations in public sector environments. This can be achieved without negative impacts to service levels. In addition, rostering could be implemented in demand driven services, where historical data can be used to better match staff to demand, and where required, to help ensure that the right mix of expertise is available at any given time.
Service Impacts	**Equity Impacts**
Better scheduling practices can reduce overtime, which in turn reduces sick leave and improves employee satisfaction.	No equity impacts anticipated.
Alignment to Previous City/Council Direction	
Principle 2 of the City's Long-Term Financial Plan, Improve Value for Money, specifically mentions Human Resources and Staffing as a driver of the City's overall financial position, and recommends working respectfully with bargaining agents to address increases to the City's wage bill.	
Time to Benefit Realization	**Implementation Considerations**
Greater than one year.	Requires Council approval, due to potential impacts on bargained agreements; technology selection should be re-evaluated, given length of time from decision to implementation.

Risks and Dependencies

- Fully taking advantage of improved time and attendance monitoring and rostering will require a detailed assessment of the current constraints imposed by collective bargaining, payroll rules, and demand-driven services; this assessment should be rigorous to ensure that unintended consequences are minimized.
- Workforce optimization could be perceived as a means to reduce the overall headcount at the City. This is not necessarily true, as the focus is on efficiency, and this initiative should be communicated as such.
- Rostering and shift changes will need to be developed and rolled-out in co-operation with bargaining units, and could potentially need to be included in the next round of bargaining.
- City should consider assessing gaps in currently planned roll-out of technology for scheduling; consider expansion to an appropriate rostering and/or skills mix approach to scheduling.

Run Commercial Operations on Commercial Business Principles

Category	
Alternative Business Models	
Current State	**Opportunity**
The City of Toronto operates a number of businesses that are essentially commercial operations, but not operated as such. These include the TTC, TCHC, TPA, Toronto Water, and Municipal Waste. Some examples include: • The low proportion of revenue derived by the TTC and TCHC from improving commercial and retail use of their property portfolios • The ongoing subsidy by taxpayers of municipal waste collection • The breadth of programs that operate their own parking facilities, given the expertise of the Toronto Parking Authority	Among the opportunities that exist that the City can pursue are: • Consolidating parking functions under the TPA and charge market rates at a rate regularly reviewed for revenue maximization. The TPA can also create net-new parking spaces by extending on street parking enforcement to high-density residential streets and fully recovering lost revenue due to disruptions (e.g. construction taking meters out of service) • Municipal waste could eliminate all rebates currently provided, and arrive at a true, utility-based cost-recovery model • Toronto Water could be allowed to access debt financing, better matching the payment for assets to their respective lives • The TTC and TCHC could more aggressively pursue non-fare and non-rent revenues, respectively, including through retail development opportunities • TCHC could also be allowed to pursue a new-build strategy, as recommended by the Mayor's Task Force on Toronto Community Housing; this would allow it to shift to a more sustainable mix of tenants, while building new units in a self-sustaining manner
Service Impacts	**Equity Impacts**
Positive – a commercial approach can increase revenue, creating capacity to invest in service improvements.	No equity impacts anticipated.
Alignment to Previous City/Council Direction	
N/A	
Time to Benefit Realization	**Implementation Considerations**
As quickly as within six months, with more significant changes taking greater than one year.	Requires Council Approval and direction to Agencies; Governance and oversight mechanisms will have to be reviewed to ensure their appropriateness for commercial models.
Risks and Dependencies	
• Existing contracts with service providers and collective agreements will have to be examined in depth prior to any changes	

City as a Commercial Partner

<table>
<tr><th colspan="2">Category</th></tr>
<tr><td colspan="2">Alternative Business Models</td></tr>
<tr><th>Current State</th><th>Opportunity</th></tr>
<tr><td>The City does not have a consistent approach to its potential role as a commercial partner to a variety of industries. Some examples where the City could take on a more explicit role as a commercial partner are:
Engaging the telecoms industry around supporting 5G infrastructure and provincially mandated next generation 911 capability
Leveraging the significant data generated by the City to support a smart cities approach, building on the recent agreement between Waterfront Toronto and Sidewalk Labs as an example</td><td>Street-lighting standards and other street infrastructure, which are closely spaced and have power supply connections, are ideally suited for mounting telecoms infrastructure. The City could sell or lease the rights to use City assets to host telecoms infrastructure through the strategic procurement of a private sector partner or partners.

Develop an approach to leveraging City data collection that can support more public-private smart city partnerships.</td></tr>
<tr><th>Service Impacts</th><th>Equity Impacts</th></tr>
<tr><td>Positive – incremental revenue can be allocated to enhance services; engaging the private sector can reduce the cost to the City, better distribute risk, and result in improved outcomes.</td><td>Positive equity impacts, dependent on the agreement with partners, if greater access to services is provided. Specific impacts would be considered on a case-by-case basis.</td></tr>
<tr><th colspan="2">Alignment to Previous City/Council Direction</th></tr>
<tr><td colspan="2">On December 5, 2017, City Council received a report from the Chief Information Officer and the General Manager, Economic Development and Culture on Advancing Broadband Infrastructure and Internet Connectivity that included the Toronto Broadband Study. The Study recommended that the City should leverage its assets to carry new wireless equipment (specifically, as related to the deployment of 5G).</td></tr>
<tr><th>Time to Benefit Realization</th><th>Implementation Considerations</th></tr>
<tr><td>As quickly as within six months, with more significant changes taking greater than one year.</td><td>Requires Council approval; Public concerns about data privacy and collection under any partnership model would have to be addressed</td></tr>
<tr><th colspan="2">Risks and Dependencies</th></tr>
<tr><td colspan="2">Potential for external transaction and negotiation support could require upfront expenditures in 2020, before revenue is realized
Benefits can be realized through revenue to the City or partnership agreements to provide other, non-monetary benefits
Agencies will need to be engaged, as Toronto Hydro owns light fixtures in the City and the TTC's extensive network of physical infrastructure could also be used
The City will need to explore any regulatory (provincial/federal) constraints that constrain the ability to monetize infrastructure and data</td></tr>
</table>

Optimize Infrastructure Policy, Planning, and Financing

Category	
Infrastructure & Asset Management	
Current State	**Opportunity**
The City currently has a 10-year, $40B capital plan, which, as discussed above has significant unfunded portions. In addition, historically, the City as a whole has underspent the approved capital plan, achieving approximately 2/3 of planned spending. As there is no central owner of the capital plan, projects consistently get approved before they are ready for construction, and eventually deferred into the following year. Finally, the City does not consider alternative forms of financing or delivery of capital projects in a consistent and co-ordinated way.	The City has three opportunities with respect to the capital plan: • Assign a single owner of the capital plan, who will, among other functions, test the readiness of each project prior to approval, to ensure projects have passed through a sufficient portion of planning and design to be realistically achievable in the upcoming year (i.e. stage-gating). • Conduct regular market soundings on the capital plan as a whole to understand where there are opportunities to engage the private sector to better manage risk and delivery. • Implement a co-ordinated, city-wide approach to evaluate financing and delivery models for all major projects, from traditional delivery through P3's and further, to Design-Build-Finance-Operate-Maintain models.
Service Impacts	**Equity Impacts**
Improved capital delivery and predictability will enhance services.	No equity impacts are anticipated.
Alignment to Previous City/Council Direction	
Principle 2 in the Long-Term Financial Plan calls for improved value-for-money; the Long-Term Financial Plan also calls for regular reviews of the capital plan as a whole, implementing stage-gating for all capital projects, and considering different procurement strategies to improve risk allocation between the City and external delivery partners.	
Time to Benefit Realization	**Implementation Considerations**
Immediate.	With the exception of alternative methods of financing and delivery, within full control of City Administration.
Risks and Dependencies	
• Central co-ordination and ownership will require Divisions and Agencies to buy-in to a change of process that will see them lose a degree of control over their capital budgets. • Capacity will need to be built within the City in order to properly evaluate and conduct due diligence on financing and delivery options; project management, planning, and design capacity within the City will also have to be developed in order to successfully engage the private sector and increase the readiness of projects to successfully pass the stage-gating process.	

4 – Implementation Roadmap

The immediate priorities for the City are considering the opportunities above in the context of the overall fiscal plan, current initiatives already underway, and the capacity to manage transformation across the City. In some cases, there will be up-front implementation costs and the requirement for temporary increases to headcount or the procurement of external assistance. These should be viewed for what they are: short-term investments to drive the City towards fiscal sustainability.

An overall implementation roadmap, based on the harvesting of immediate savings opportunities, the need for structural changes, and the importance of developing the right governance structures and benefits realization frameworks follows.

Figure 15 - Implementation Roadmap

	2019	2020	2021	2022
Focus	Prioritize	Structural Changes and Short-Term Opportunities	Governance and Benefits Realization	Transformation
Details	▸ Based on time to value, alignment with current initiatives, and dependencies, prioritize opportunities ▸ Develop detailed implementation plans for highest profile opportunities ▸ Create centralized transformation governance body ▸ Establish medium-term spending path and service expectations	▸ Accelerate budget and systems modernization ▸ Establish ownership and accountability for overall fiscal plan ▸ Updated staffing policies ▸ Develop structure for savings allocation ▸ Assign ownership for broader transformation opportunities ▸ Harvest savings from highest priority opportunities to fund broader transformation	▸ Focus on governance for broader transformation initiatives, including roles of Divisions, Agencies, Senior Leadership, and Council ▸ Develop benefits realization framework to support continued progress towards fiscal sustainability ▸ Conduct detailed analysis to validate size of each transformative opportunity and time to realization	▸ Rigorous project management to ensure continual progress and full engagement across City ▸ Ongoing reporting to Council and public ▸ Change management to support staff through transformation ▸ Regular assessments of progress against plan, benefits realization, and impact of change on staff and service delivery

The City of Toronto is faced with an opportunity to truly modernize its operations, lower the cost of service, and deliver on the expectations of its residents, while addressing the longstanding fiscal, structural, and operational challenges that have hindered previous transformation efforts. Most of the program laid out above is within the power of the City to act on and can be achieved within this term of Council. The choice facing the City now, is how to effect a legacy-building change that will secure immediate and longer-term sustainability of its fiscal targets.