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2026 OPERATING BUDGET BRIEFING NOTE

Budget Reductions and Offsets

Issue/Background:

- The 2026 Staff-Prepared Operating Budget includes a total of **\$788 million in reductions and offsets** identified to maintain and preserve City services while also delivering on the 2026 Budget priority to Making Life More Affordable.
- Reductions and offsets are a critical component of the City's multi-year financial strategy, supporting fiscal sustainability by managing cost pressures, validating assumptions and identifying savings opportunities.
- This briefing note provides the breakdown of the \$788 million in reductions and offsets included in the 2026 Budget, along with additional context on how the reductions and offsets were identified through the budget development process.

Table 1: 2026 Reductions and Offsets (\$788 million)

Category	Amount Identified (\$ millions)
Efficiencies	\$57
Line-by-Line Reviews	\$78
Program and Agency Reviews	\$264
Revenue Adjustments	\$286
Other	\$103
Total Reductions and Offsets:	\$788

Key Points:

- As part of the City's annual budget process, when Divisions and Agencies submit their budgets, initial budget pressures alongside preliminary balancing actions are identified. Budget submissions are then subjected to corporate review, challenge and validation to ensure affordability, accuracy, and alignment with Council-approved objectives.

- To balance inflationary pressures, growth and increasing demands for services with fiscal responsibility, staff apply a range of affordability measures, including identification of permanent efficiencies, line-by-line expenditure reviews, program and agency reviews to validate cost assumptions and timing requirements, and revenue adjustments based on updated trends and actual experience.
- Collectively, these actions support the City's objective of maintaining service levels, limiting reliance on one-time measures, and advancing a sustainable multi-year financial plan.

Breakdown by Category:

Efficiencies (\$57 million)

- Efficiencies represent permanent, structural cost reductions that do not negatively impact service levels, legislative requirements, or contractual obligations, and do not shift costs to other programs or future years.
- Efficiencies are achieved through improved processes, technology adoption, and resource optimization.
- Efficiency actions focus on long-term savings and encompass the actions:

Action	Description	Amount Identified (\$ millions)
Strategic Procurement and Contract Management	Actions that reduce costs through improved sourcing, contract negotiation, consolidation, and vendor management.	\$15
Workforce Optimization	Changes to workforce planning and deployment that improve efficiency while maintaining approved service levels.	\$14
Technology and Systems Optimization	Better use, modernization, or rationalization of systems and technology.	\$9
Process Improvements and Automation	Streamlining and automating workflows to reduce manual effort and administrative duplication.	\$9
Asset and Facility Optimization	Optimizing the use and lifecycle of City assets and facilities, including preventative maintenance and reallocation of under-utilized resources.	\$4
Policy and Program Redesign	Adjustments to policies or service delivery approaches which reduce costs while maintaining intended outcomes.	\$5
Total Efficiencies		\$57

- Details of Efficiencies identified in the 2026 budget are available in the individual Division and Agency budget notes. The following are a few examples:

- Toronto Shelter and Support Services exit from costly hotel leases;
- Financial Operations and Control, Transportation Services, Corporate Real Estate Management and Toronto Transit Commission's insourcing of various services, reducing reliance on contracted services;
- Toronto Parking Authority taking advantage of enterprise/corporate contracts and services;
- Fleet Services' replacing the use of short-term vehicle rentals with City owned vehicles;
- Technology Services, TO Live, Toronto Cyber Security, Toronto Public Library and Toronto Zoo's rationalization of technology services, software licences, and/or tools and devices; and
- Toronto Transit Commission and Fleet Services purchase of EV vehicles which results in savings in fuel usage.

Line-by-Line Reviews (\$78 million)

- Line-by-line reviews involve a detailed examination of program budgets to ensure estimates reflect actual spending experience and realistic projections.
- Reviews assess historical spending over a three-to-five-year period, examining both expenditure categories (e.g., "Materials and Supplies") and specific commitment items (e.g., "Stationery and Office Supplies").
- During the review, staff assess expected spending levels while accounting for inflationary cost increases, economic factors and one-time or limited operational requirements.

Program and Agency Reviews (\$264 million)

- Program and Agency Reviews include in-depth validation of City service delivery models, staffing assumptions, and cost drivers following initial budget submissions.
- Corporate and program staff collaborate to validate all budget assumptions and estimates, providing a critical 'challenge' function that prioritizes expenditures, assesses affordability and confirms the timing of cost assumptions.
- Through this process, staff identified approximately \$264 million in reductions and offsets for 2026. Key measures included the implementation of a hiring slowdown strategy to better align staffing levels with the City's capacity to recruit and onboard employees and to leverage efficiencies identified by Programs or as part of continuous improvement efforts; deferring or declining certain reserve-funded requests where costs could reasonably be postponed or managed within existing resources; and staffing and vacancy adjustments to ensure workforce assumptions reflected achievable levels in 2026.

Revenue Adjustments (\$286 million)

- Revenue Adjustments reflect updated revenue expectations based on inflationary adjustments to user fees, expected changes in volume based on trends and actual experience, and other revenue refinements identified during the review process.

- On an annual basis, staff consider required adjustments to user fees based on cost-recovery models, alignment with market conditions, and inflationary adjustments required to deliver services. For additional information on adjustments to user fees, staff have prepared a 2026 Budget Briefing Note #12: Summary of User Fee Adjustments in the Prepared Budget.
 - ❖ It is important to note that for 2026, Toronto Transit Commission transit fares will remain at the existing 2024 transit fares, making 2026 the third consecutive year that transit fares have not increased.

Other Offsets (\$103 million)

- These reductions primarily reflect the City's expected assessment growth of \$76 million and service level adjustments resulting from the legislated removal of the Automated Speed Enforcement Program.
- Assessment impacts account for changes in the City's property tax base due to new construction, renovations, demolition or property value appeals.
- While staff identify opportunities for reductions or offsets throughout the process, there may also be reasons for increases to the budget pressure. These can result from economic factors, additional operational needs, or decisions that have future implications.

Additional Actions Supporting Budget Balance

- The 2026 Operating Budget process began with an opening budget pressure of \$1.072 billion, reflecting structural funding gaps entering the year.
- As the budget was developed, additional inflationary and growth pressures of \$268 million were incorporated to reflect updated economic conditions, contractual obligations, and service demand.
 - This brought the total budget pressure addressed through the 2026 budget process to \$1.340 billion.
- To address this pressure and achieve a balanced 2026 Operating Budget, the City implemented the following actions:
 - A further \$193 million identified through financing adjustments, reflecting changes to how certain operating and capital-related costs are funded, rather than reductions to service levels or program activity
 - Temporary bridging measures of \$323 million, including time-limited actions such as reserve usage
 - A property tax increase generating \$35 million, contributing to budget balance while considering affordability impacts

- Collectively, these actions demonstrate the City's multi-year approach to financial planning, balancing affordability for residents with the need to maintain service levels, manage inflationary and growth pressures, and reduce reliance on temporary measures over time.

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