



Core Services Review: The Good, The Bad and the Ugly

A Discussion with Toronto City Manager Joe Pennachetti

Canadian Association of Municipal Administrators
May 29, 2012



OUTLINE

1. The City's Long-Term Financial Plan
2. 2012 Budget
 - i. Operating
 - ii. Capital
3. Service Review Program
4. Labour Settlement
5. 2013-2014 Outlook
6. Summary & Lessons Learned

SECTION 1.

THE CITY'S LONG TERM FINANCIAL PLAN

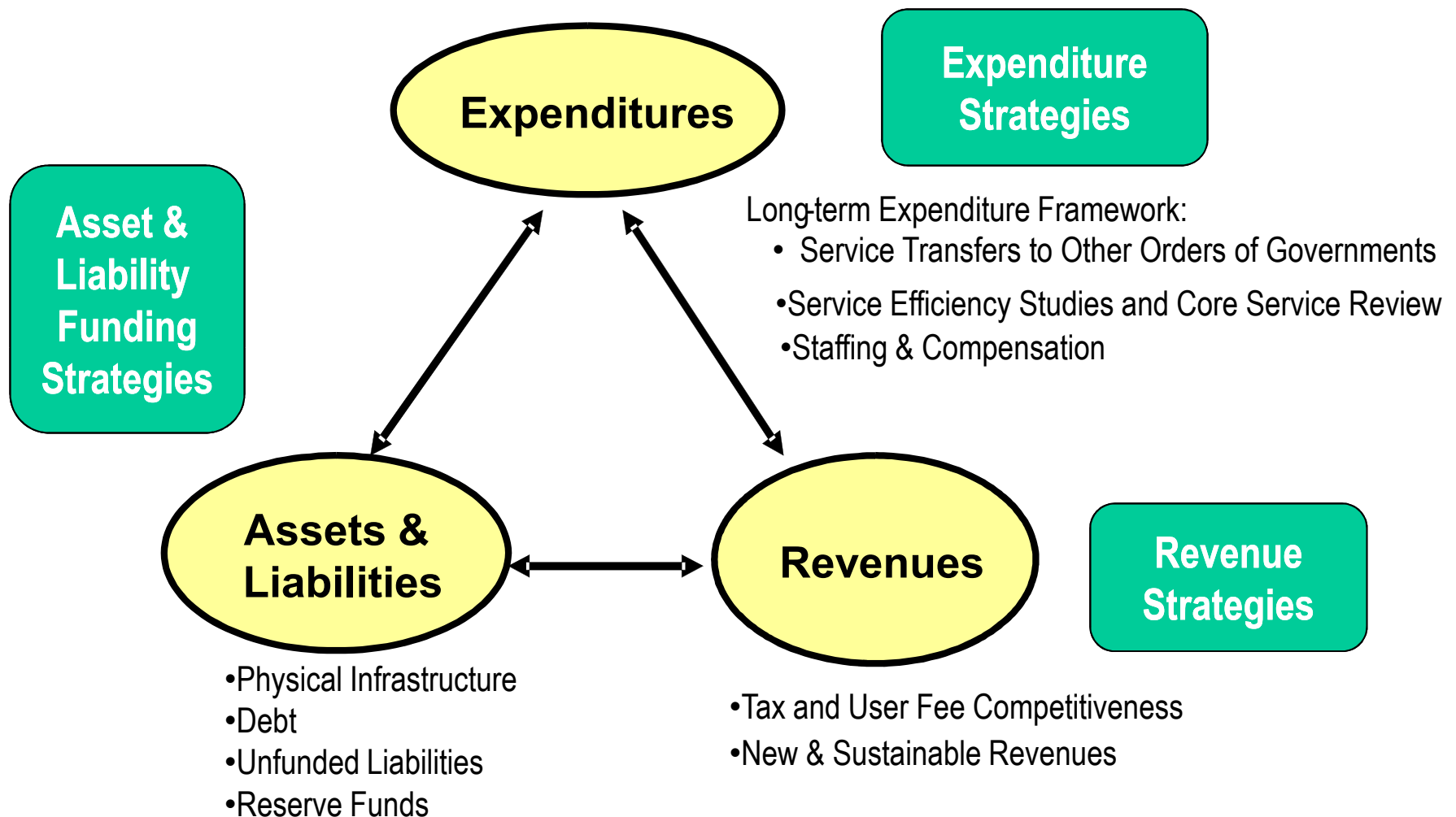


City's Long Term Fiscal Plan:












- April 2005 — Long Term Fiscal Plan received Council approval
 - 8 key financial issues addressed through
 - 24 strategies, 17 principles & 5 policies
- Provides a **framework** for future-year financial planning & aids in the annual budget process
- Forms a blueprint for discussions between the City & its funding partners including other orders of government
- Emphasizes the balancing of financial strategies through 3 key components: **revenues, expenditures, & assets and liabilities**



The Balance of Fiscal Sustainability



Scorecard (2005 to 2011)

Identified in the LTFP 2005	Current Status (2011)	Score
Well-Managed (Expenditures) <ul style="list-style-type: none"> City has higher costs than surrounding municipalities Demands for growth need to be adequately funded Capacity to sustain services in an economic downturn 	Costs Reduced- Service Review Program	
	Expenditures growth slowed but still growing	
	Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs	
Affordable (Revenues) <ul style="list-style-type: none"> Business taxes need to be more competitive Revenue growth need to match responsibilities/growth Province needs to properly fund income support programs and public transit 	Improving business competitiveness	
	Revenues diversified - Provincial Upload on schedule; User Fees Enhanced, MLTT	
	Secured permanent share of Fed/Prov. Gas Tax Provincial 50% Transit Operating Funding Share of Harmonized Sales Tax	  
Sustainable (Assets & Liabilities): <ul style="list-style-type: none"> Ageing infrastructure must be replaced Employee benefits and other liabilities need to be adequately funded 	10 Year Capital Plan More than 60% to be spent on State of Good Repair Debt increase mitigated	 
	Sick Pay liability partially capped, but some liabilities still growing	

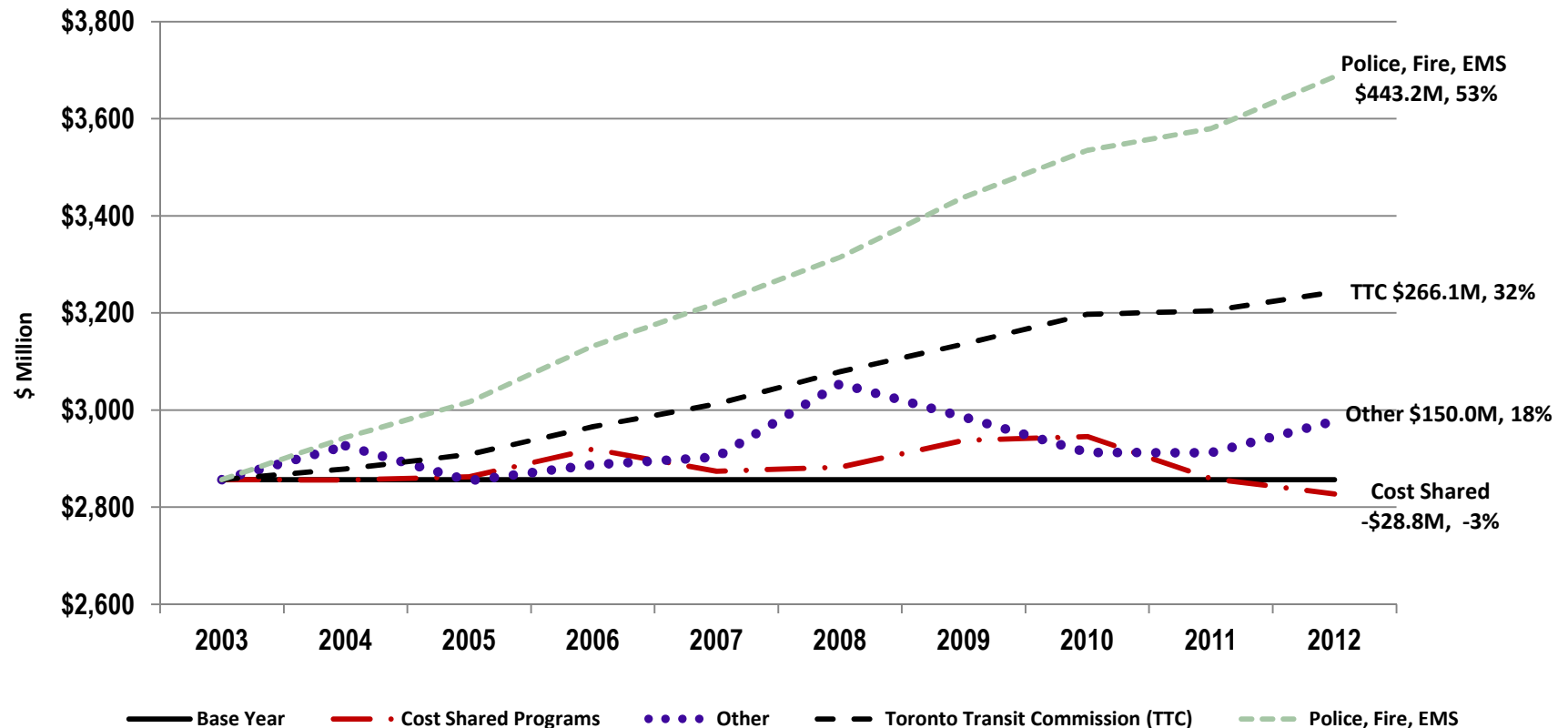


SECTION 2.1

2012 OPERATING BUDGET



2003 to 2012 Operating Budget Net Expenditure Incremental Change



Note: The labelled figures represent the contribution of each group over the period from 2003 to 2012. Each line is cumulative from the base year budget of \$2.9B and each other to get to \$3.687 B in 2012

2012 Budget Strategy

2012 Outlook Pressure is attributed to the following:

- One-time revenue
- Inflationary adjustments and other direct payroll cost
- Capital – debt financing management

Strategies to balance the 2012 Budget:

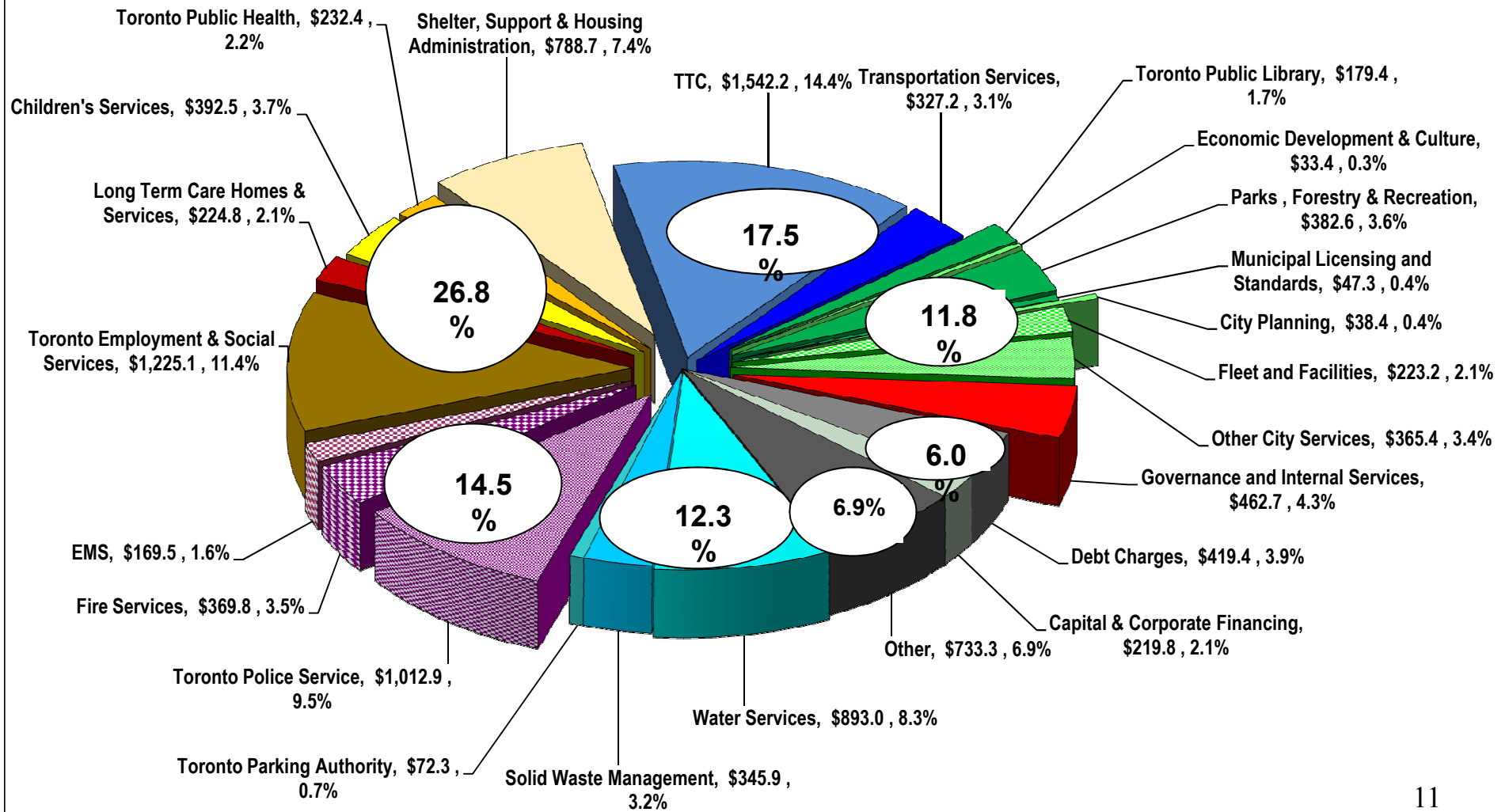
- Sustainable cost reduction
 - efficiency & service level adjustment
 - control wage/salary costs
- Elimination of one-time revenue
- Utilization of operating surplus and monetization of assets to reduce debt

Actions Taken to Balance the Budget

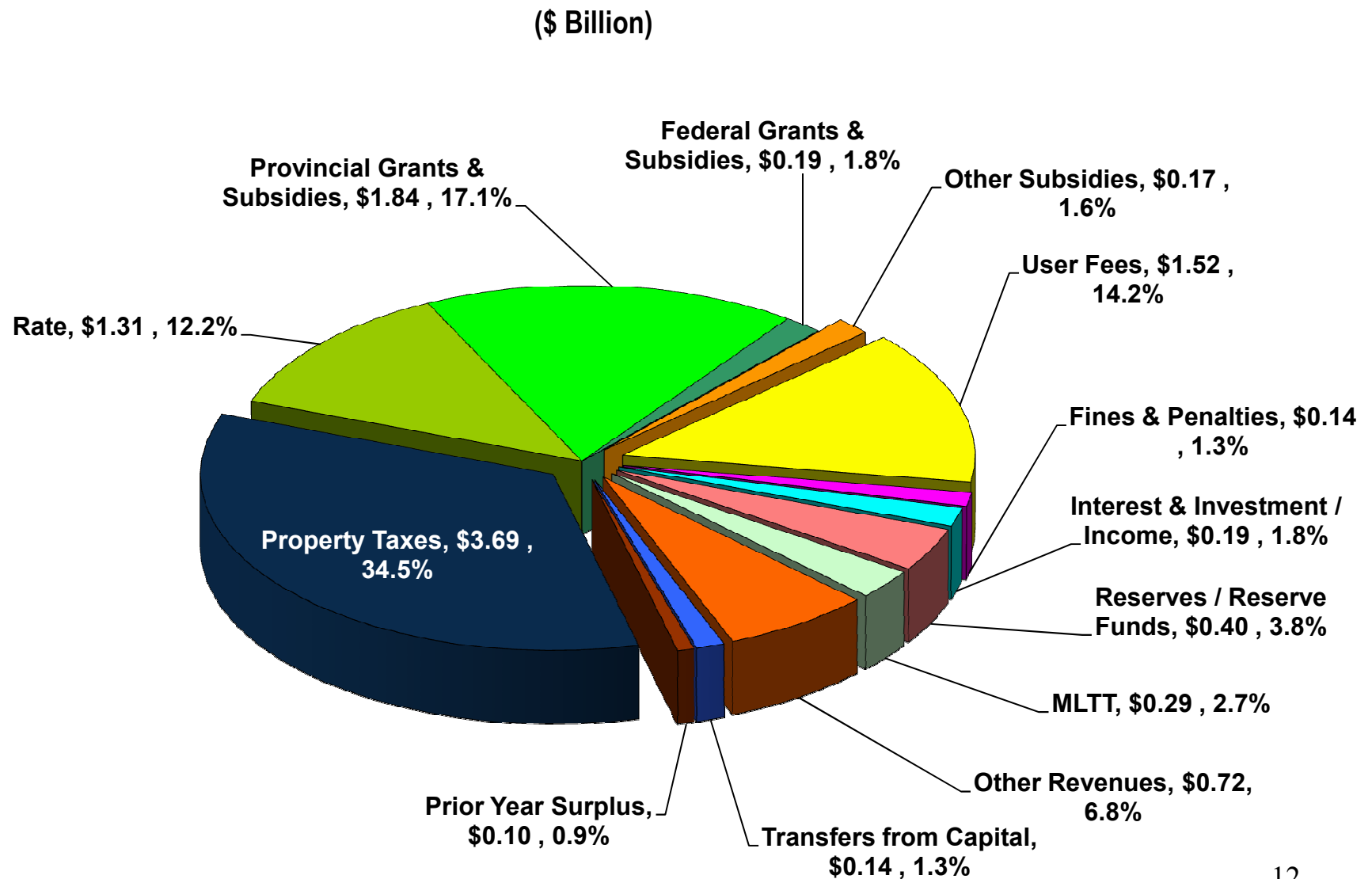
	<u>2012</u>	<u>2011</u>
Base Budget Adjustments and Efficiencies	271	57
Service Adjustments	75	-
10% =	<u>346</u>	<u>57</u>
Revenues increased:		
- economic growth	164	158
- other revenues	94	145
- TTC fare increase - 10 Cents	30	-
- 2.5% property tax increase	57	-
- Tax Stabilization Reserve (Prior Years Surplus)	83	<u>346</u>
	<u>774</u>	<u>706</u>

Where the 2012 Money Goes: - Program Expenditures of \$10.701Billion

(\$ Million)

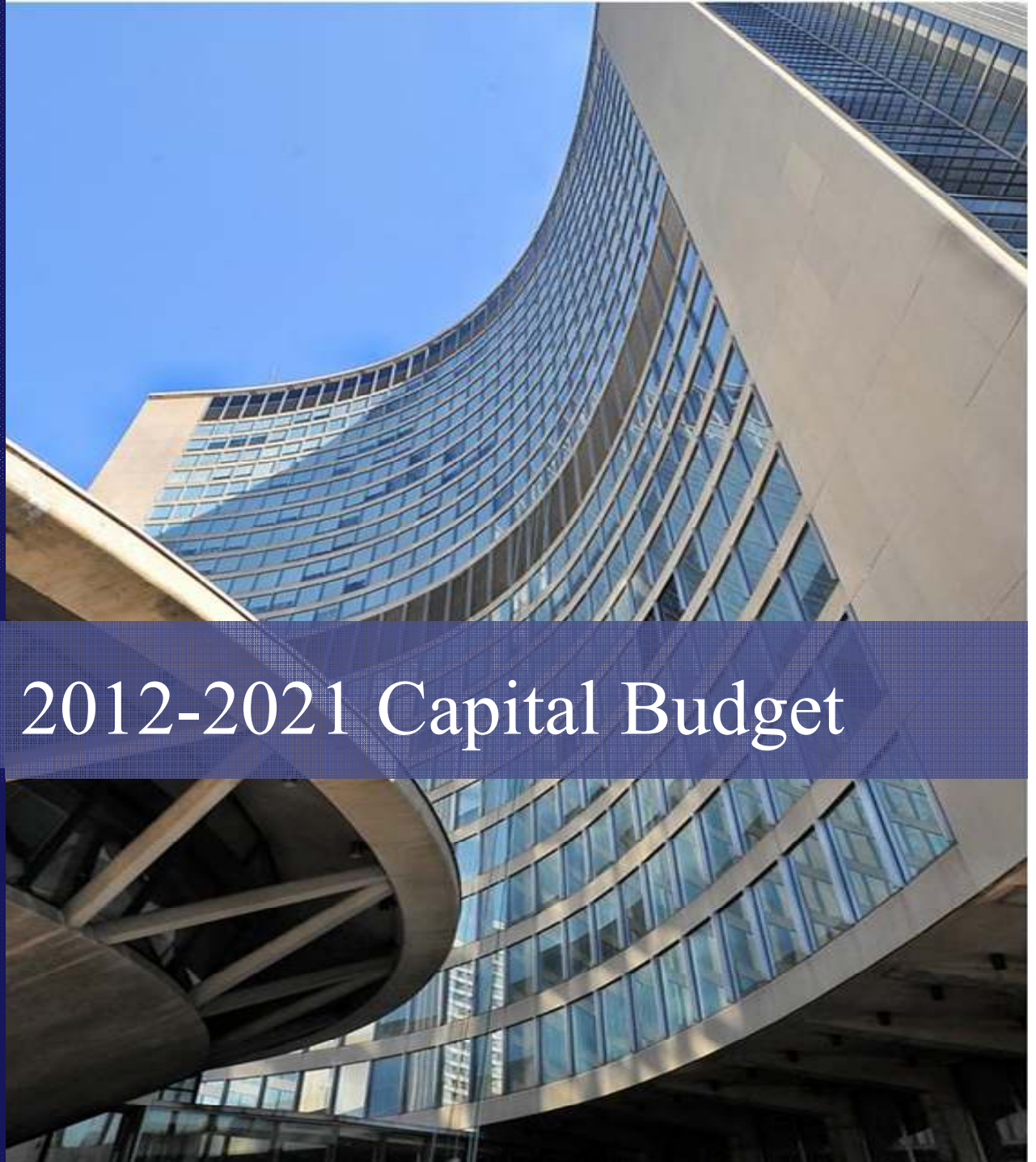


Where the 2012 Money Comes From - Program Revenues of \$10.701 Billion



SECTION 2.2

2012-2021 Capital Budget



2012–2021 Capital Budget and Plan- Budget Context

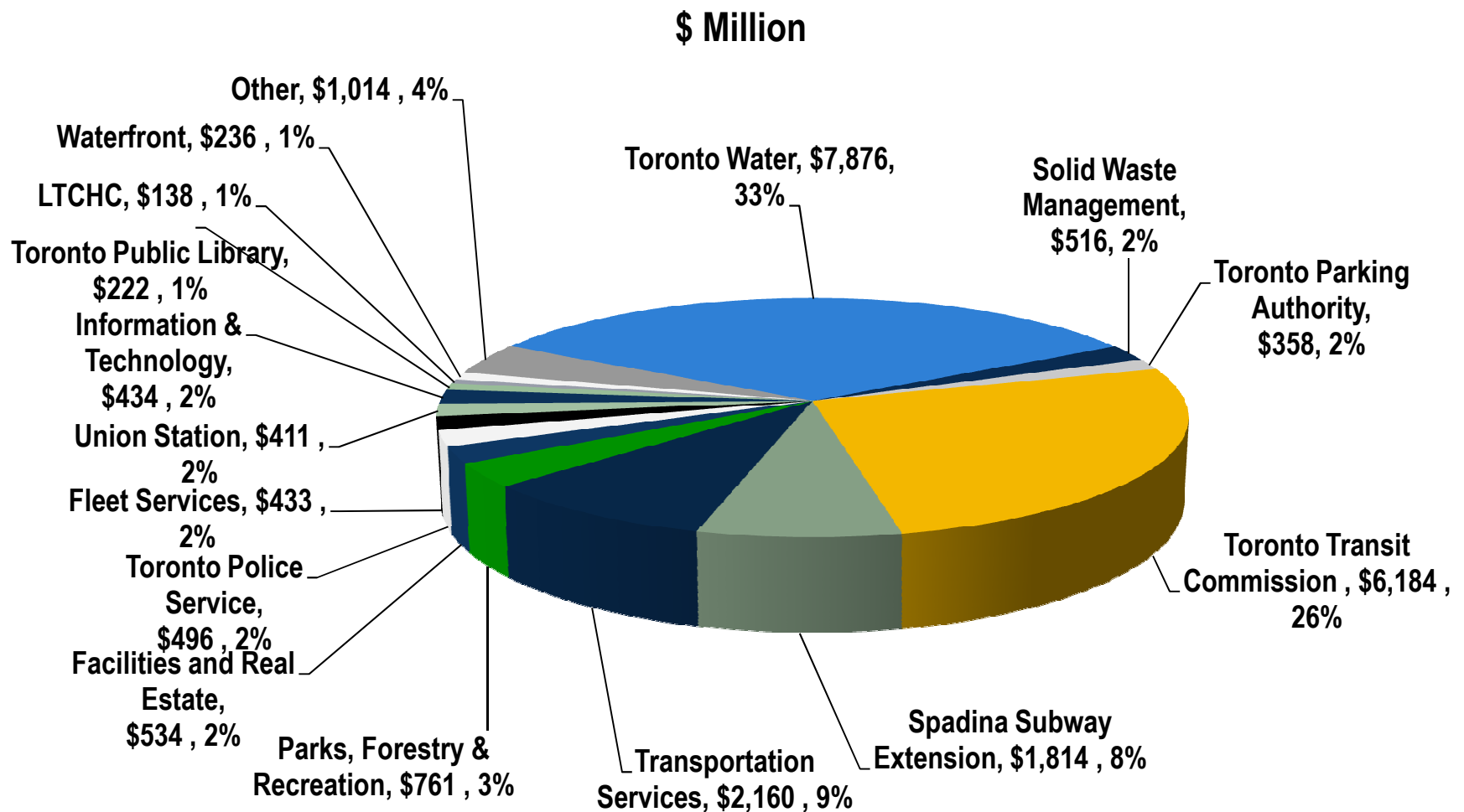
The Challenge

- Need to accommodate the TTC's \$2.3 billion capital shortfall
- Uncertainty over Federal and Provincial Funding
- Keep Debt Service costs below the 15% tax guideline

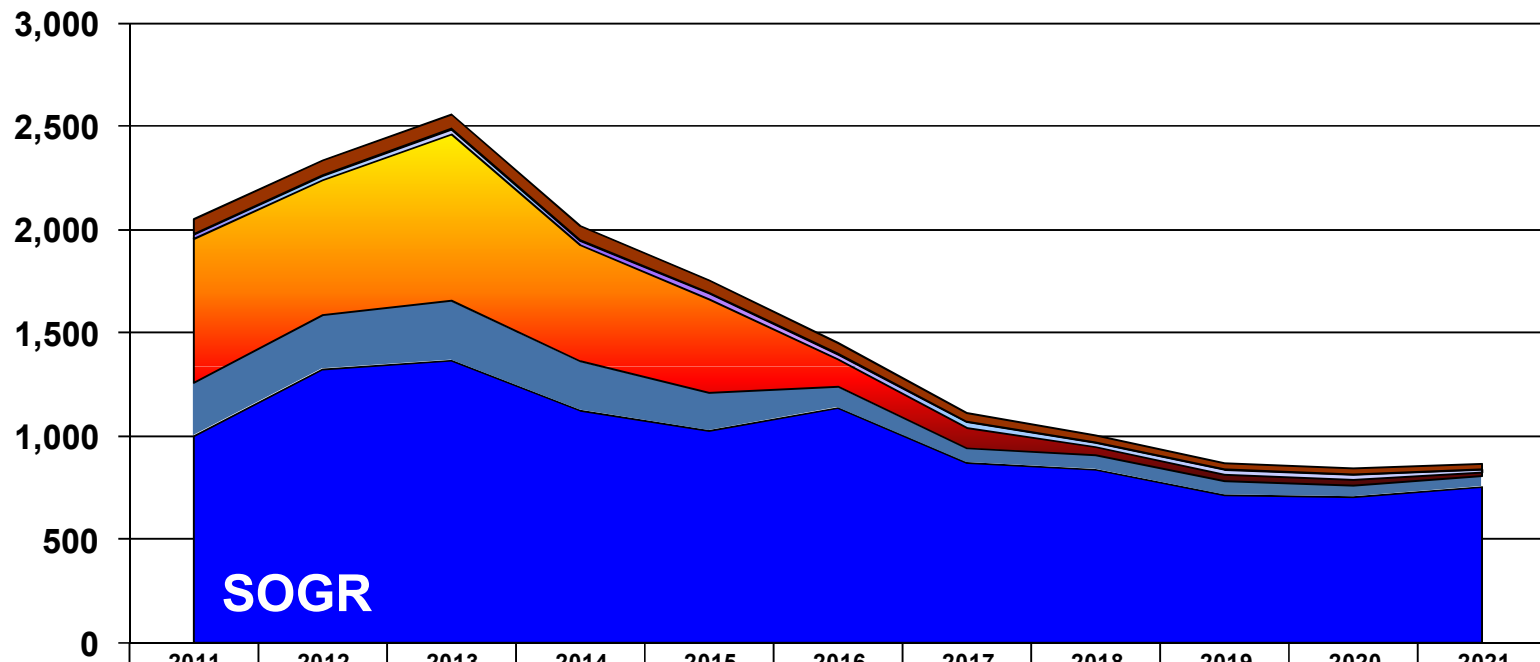
The Solution

- **TTC:** TTC has reduced capital request by \$1.1 Billion; \$700 million in new funding from operating surpluses, monetization of City assets, and expected Federal and Provincial funding
- Enhance Development Charges Funding

Where the Money Goes - 2012 to 2021 Tax and Rate Supported Capital Budget and Plan - \$23.586 Billion

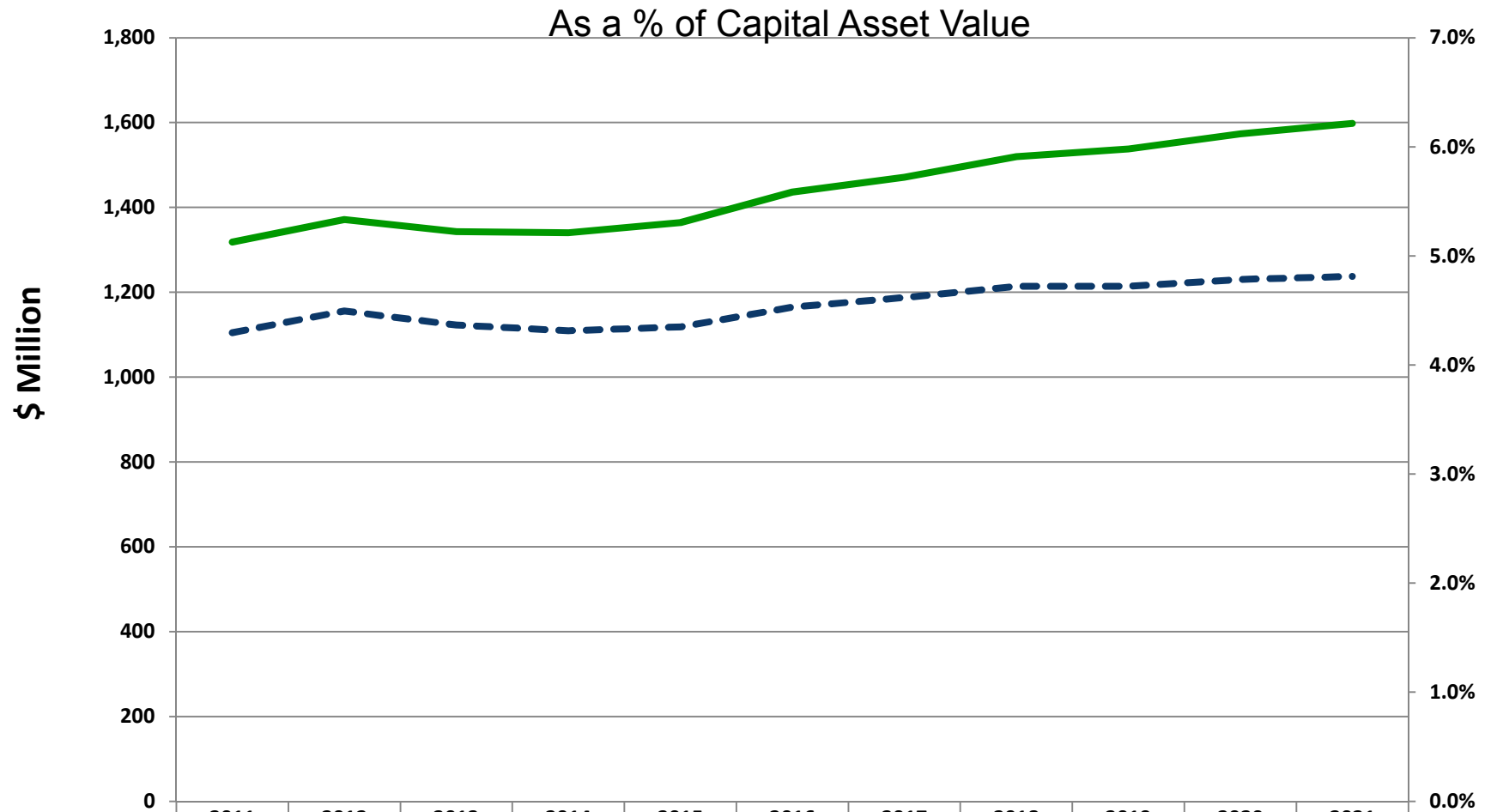


\$9.908 Billion or 67% of the 2012 – 2021 Capital Plan Allocated to State of Good Repair (SOGR)



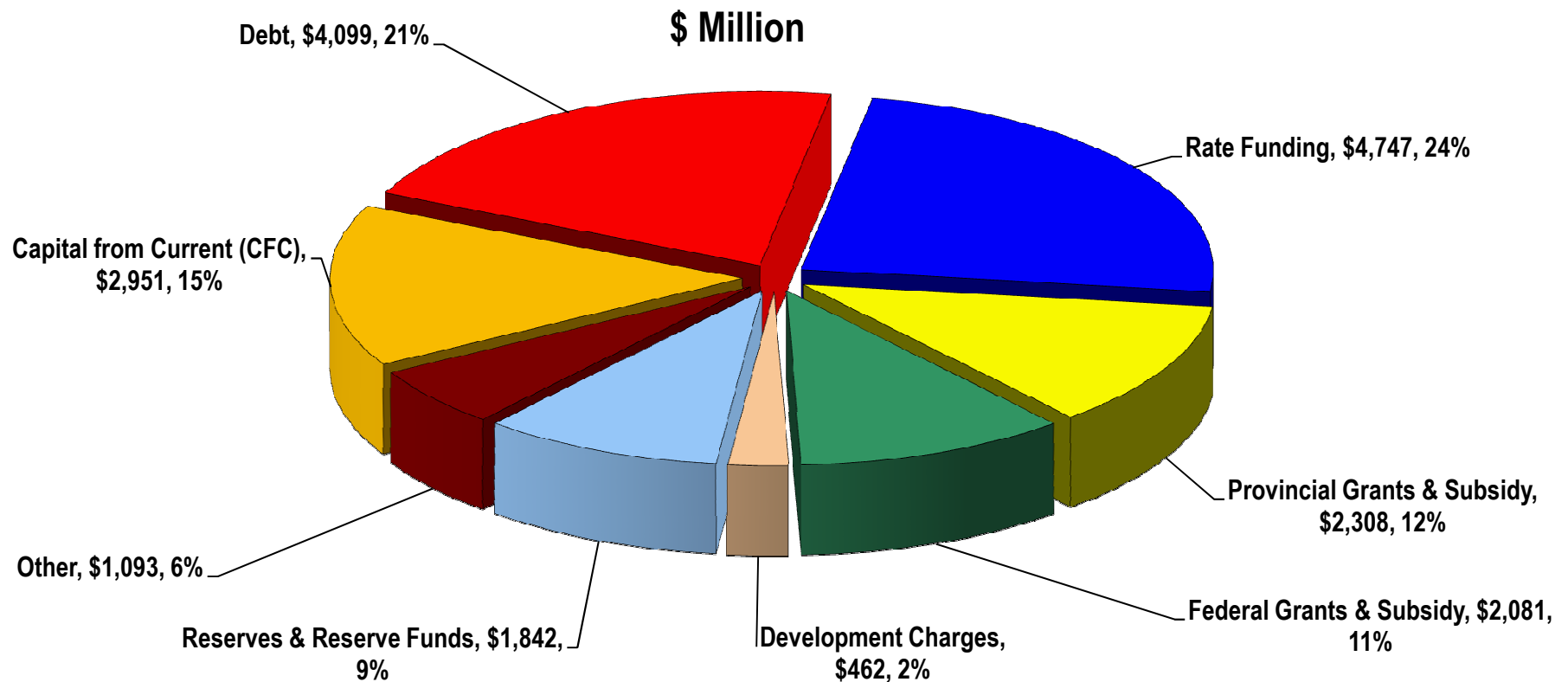
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Legislated	72	72	69	69	61	53	42	34	30	28	26
Health & Safety	21	21	24	21	29	24	28	21	24	26	15
Growth Related	702	659	811	568	457	137	103	43	35	32	21
Service Improvement	254	257	284	234	179	98	66	67	65	51	49
SOGR	1,005	1,330	1,373	1,129	1,031	1,142	875	842	718	709	758

State of Good Repair Backlog

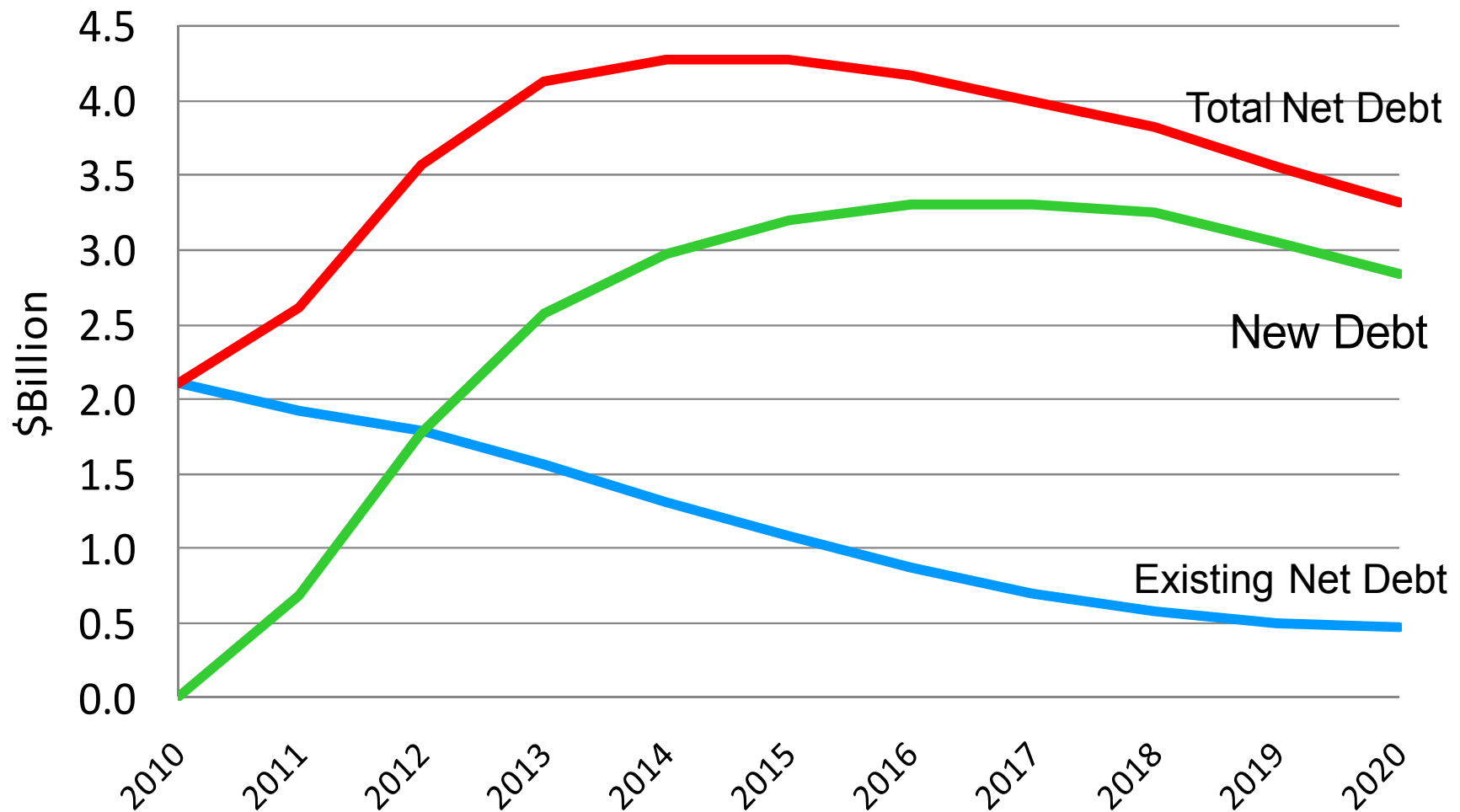


— Accumulated Backlog Est. - - - Backlog % of Asset Value

2012 – 2021 Tax and Rate Supported Capital Budget & Plan Financing - \$23.586 Billion

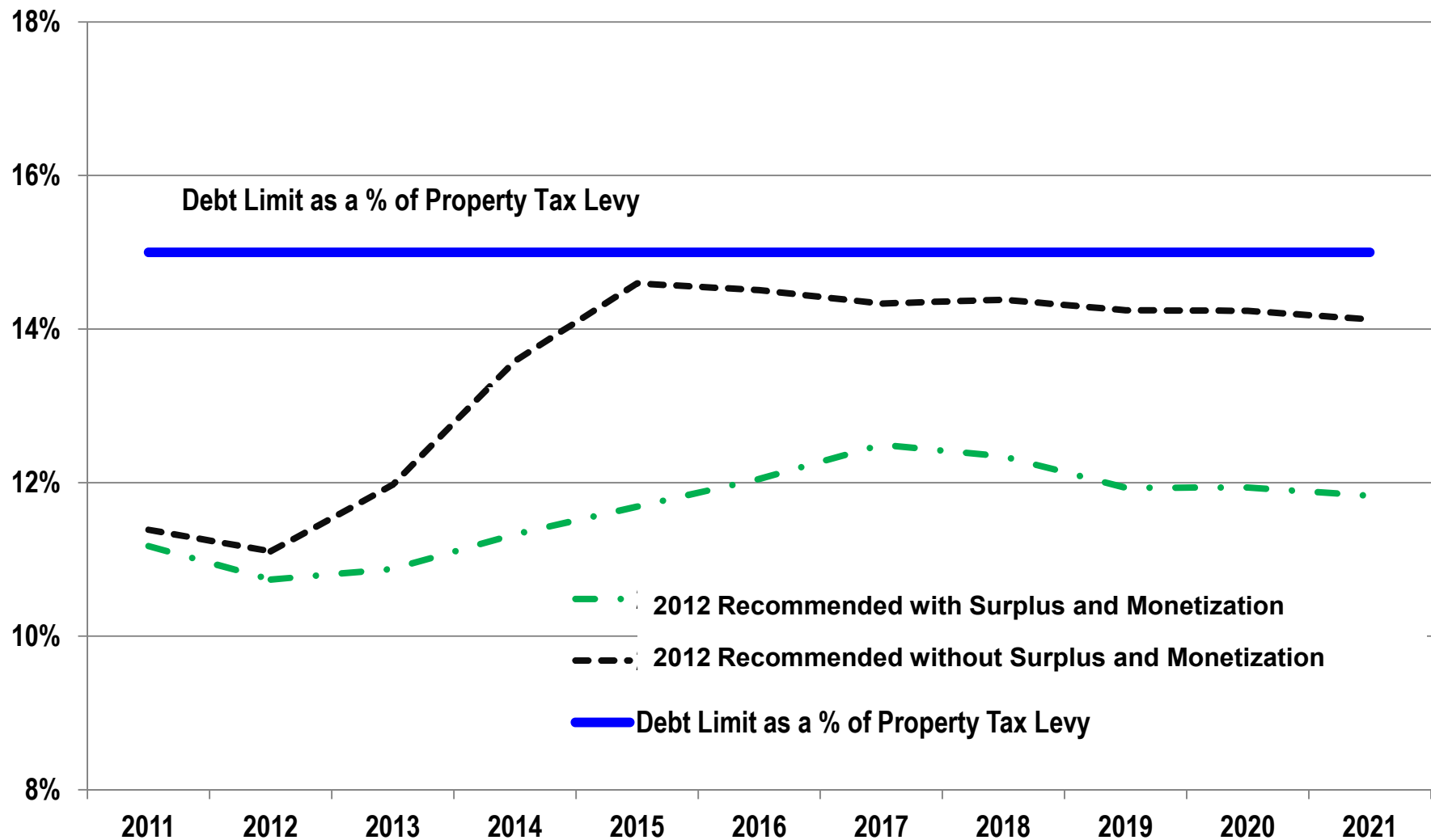


Comparison of Existing and New Debt



Debt Charges as % of Tax Levy

- Comparison of 2012 without and with Surplus & Monetization



SECTION 3.

Service Review Program



Service Review Program

To address Toronto's **2012 budget gap**, City Council launched a **review of all services** and implemented a multi-year financial planning process.

Core Service Review

- Examined **what** services the City should be delivering

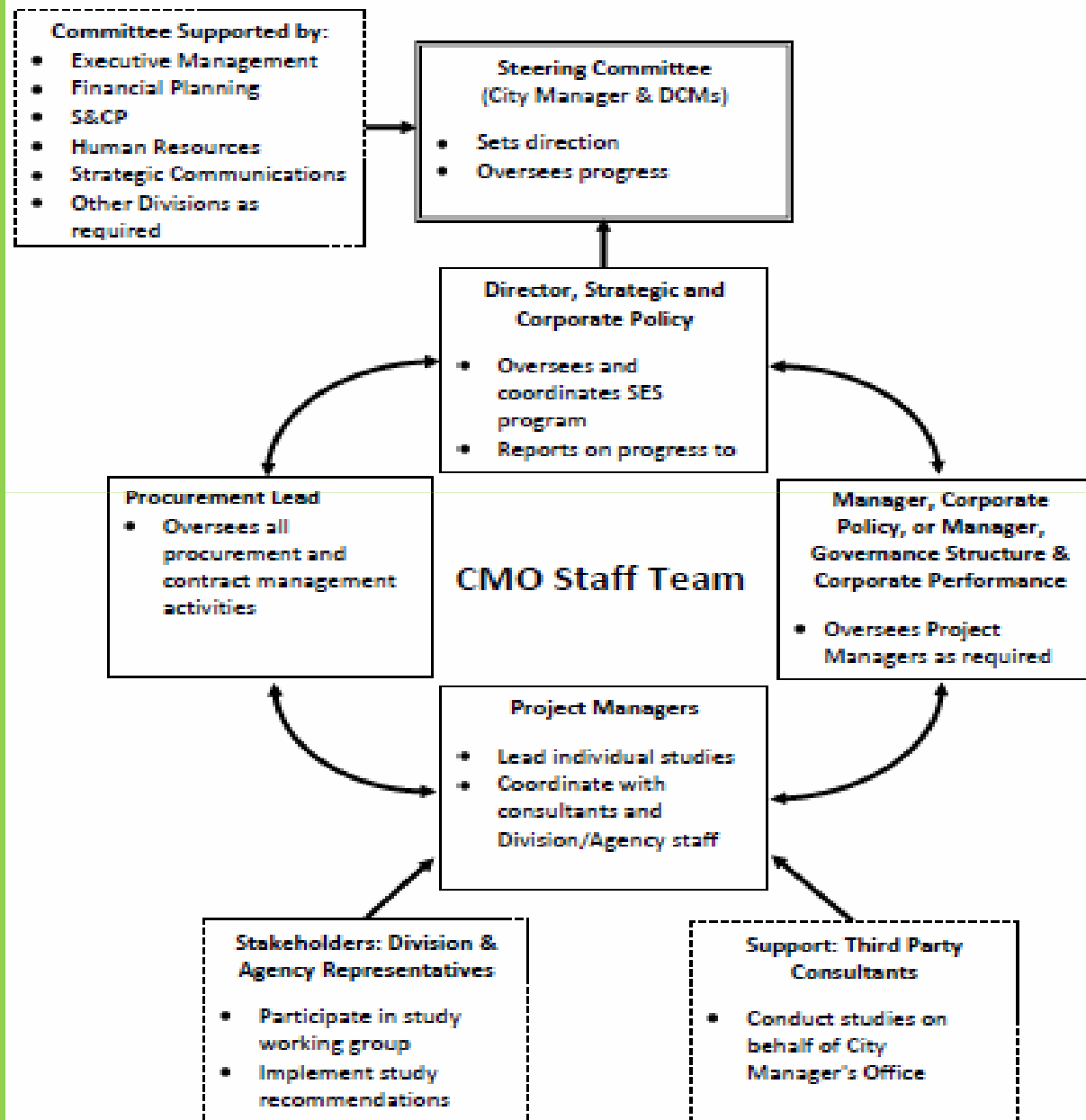
Service Efficiency Studies

- Examining service levels and **how** specific City services are delivered to ensure the most efficient and cost-effective service delivery

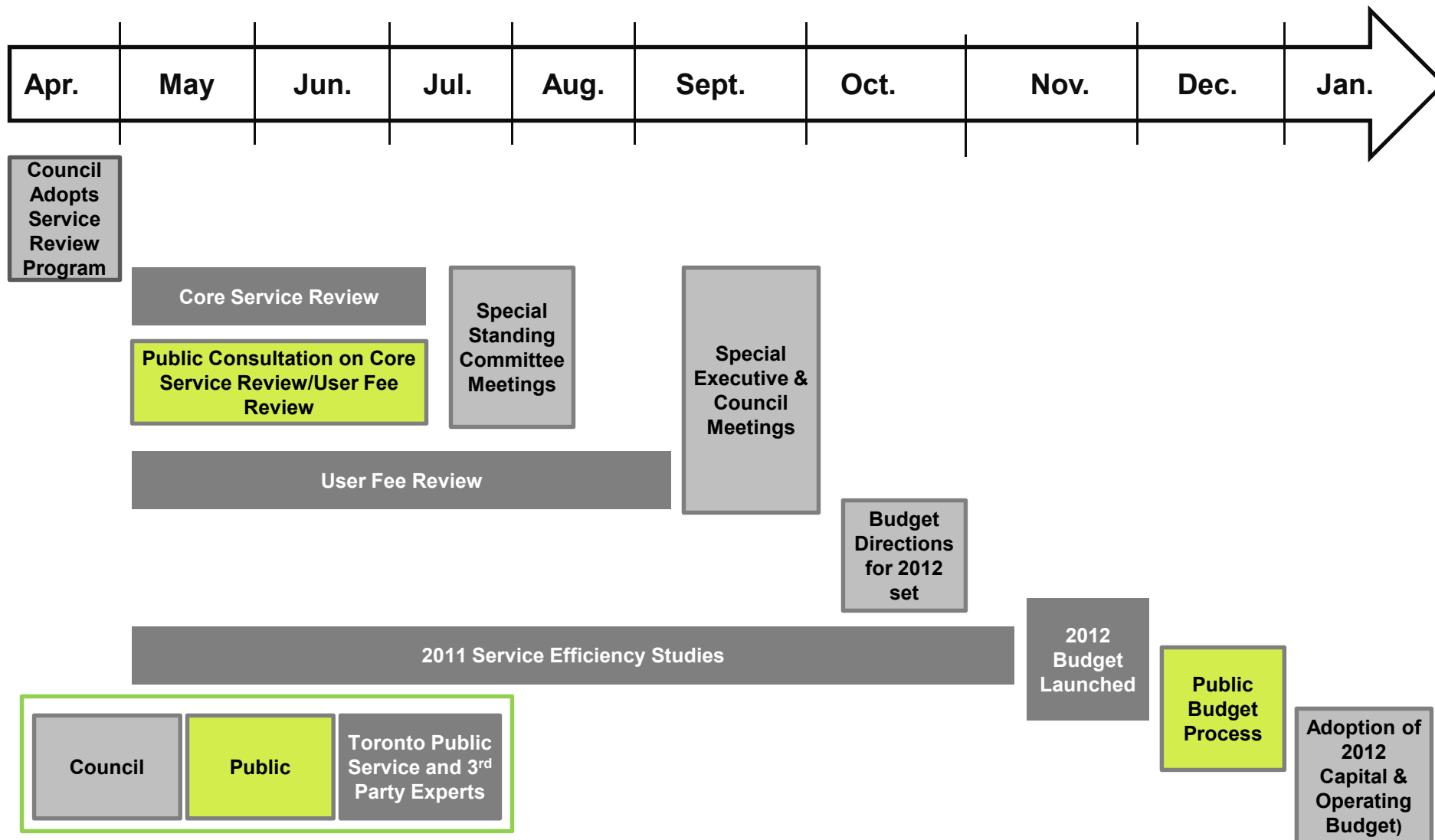
User Fee Review

- Examined all user fees currently in place to determine the extent to which they are fair and collect the **full cost of providing the service.**

Internal Service Review Program Decision Making Structure



Service Review Program Time Line (2011)*



Seeking Public Input on City Services

The public consultation (May- June 2011) included:

- **Information to the public so that they could participate in the process:**
 - [Website](#) with information about the City and its services,
 - a [blog](#) for people to discuss their ideas and ask questions;
 - calendar and map of City-run and Councillor-led consultation sessions;
 - [social media](#) links
- **Multiple options for participation and input:**
 - A [Feedback Form](#) (paper and online format)– 12,955 people provided input.
 - Downloadable [consultation kits](#) for use by organizations, individuals and City Councillors to support small group discussions.
 - [8 public roundtable discussions](#)---City staff supported the events as facilitators and subject matter experts
- **Results were reported to City Council to support decision making**



Core Service Review: Inventory of Services

KPMG conducted a review of approximately 105 services delivered by City divisions and over 50 services delivered by agencies.

KPMG:

- **Inventoried all City services and service standards and levels** based on program maps developed for the City's new Financial Planning and Reporting System (**FPARS**)
- Identified which City services are mandatory, essential, traditional, and other
- Identified the **City's role** in the each service (regulator, funder, manager through contracted services or partnerships, service management, deliverer)
- **Benchmarked services and service levels** against comparable jurisdictions and identified whether service levels are at, above or below standard.
- Identified **opportunities for changes**, time frames, an estimated range of savings and risks and implications

KPMG Core Service Review Report:

Rankings:

- **90%** of services as **core** – legislated or essential
- **8%** traditional – enhance quality of life; contribute to health economy
- **1%** other/discretionary – respond to emerging needs and priorities

Assessment of Service Levels against Ontario Municipalities:

- **85%** of services are delivered **at or below standard**
- **15%** are delivered above standard

Identified opportunities:

- 69 to eliminate, divest or reduce services
- 119 to conduct further review for future efficiencies

Core Service Review- Financial Impact and Results

- KPMG estimated total **operating savings** of approximately **\$200 to \$300 million** (2012-2014), from implementing all recommendations.
- **Capital expenditure reductions** as a result of adopting the recommendations could total approximately **\$130 million** gross in the ten-year capital plan.
- Core Service Review related service adjustments and efficiencies were submitted for consideration in the **2012 Operating Budget**, for an estimated savings of **\$42.8 million** net. Council approved **approximately \$24 million** net.
- Remaining efficiency opportunities identified in the Core Service Review will be considered in future budgets.

Service Efficiency Studies

The **Core Service Review** examines **what** services the City should be delivering. The **service efficiency studies** examines **how** City services are delivered

Service efficiency studies are being implemented to...

- enhance current **continuous improvement** initiatives and
- ensure services are delivered in the most **efficient** and **cost-effective** manner

These studies examine the current delivery of a service and identify opportunities through:

- technology and automation
- shared service models
- service innovation
- business process re-engineering
- outsourcing

Service Efficiency Studies

Completed Studies - Savings expected in 2012 - 2014

Divisions: Solid Waste Management; Transportation; Shelter, Support & Housing Administration/Affordable Housing Office; Parks, Forestry & Recreation

Agencies: Toronto Police Service, Toronto Public Library, TTC

Cross-program: Environment & Energy programs, Communications, Fleet, Facilities & Real Estate

To be undertaken in 2012: Savings expected 2013 - 2015

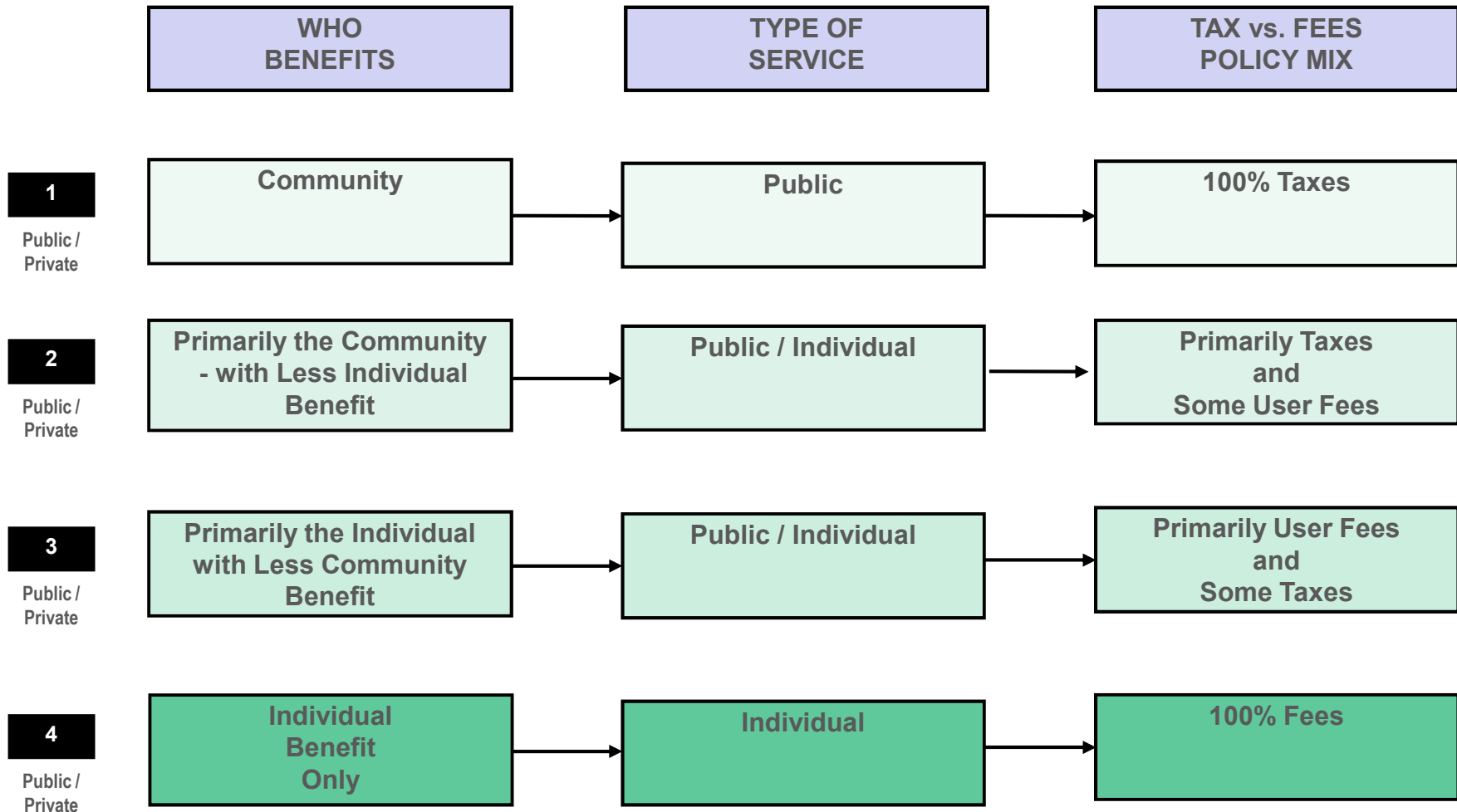
Divisions: Fire & EMS, City Planning, Municipal Licensing & Standards, Children's Services, Long Term Care Homes, Court Services, Museums

Cross-program: Shared Services, Community Infrastructure, Counter Services

2011 Voluntary Separation Program

- VSP offered to permanent employees—bargaining unit, non-union exempt and management
- Initiated as a downsizing strategy to help offset the 2012 budget shortfall
- Terms and Conditions
 - Package offered up to 6 months salary depending on years of service
 - Employees were required to exit no later than December 31, 2011
 - Ability to permanently delete position and ensure effective delivery of services to public was key criteria for approval of the VSP.
 - Final recommendations were made by senior management with City Manager providing the final approval for each VSP.
- Results:
 - 230 applications (187 bargaining unit and 43 management/non-union) were approved
 - The City incurred a one-time cost of approximately \$13 M, with the permanent reduction of 230 positions resulting in total permanent annual operating savings of approximately \$20 M.

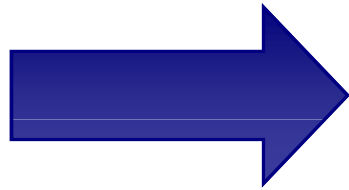
User Fee Policy - When to Charge User Fees












Examples of services that fall under each category:

1) Police Patrol, 2) Fire Suppression, 3) Community Services, 4) Land Use, Subdivisions, Building Permits

Moving Toward Fiscal Sustainability: Reducing Expenditures



-  Performance Measures and Benchmarking
-  Continuous Improvement and Cost Control
-  Multi-Year Budgeting
-  **Core Service Review**
-  **Service Efficiency Studies**
-  **User Fee Review**
-  **Voluntary Separation Program & Complement**
-  **Management**
-  Ideas That Work Program

Different Services, Different Revenue Tools

Individual

Water
Sewers
Garbage
Transit

Community

Police
Fire
Local parks
Street lights

Redistributive

Social assistance
Social housing

Spillovers

Road/Transit
Culture
Social Housing



User fees



Property tax

Sales tax

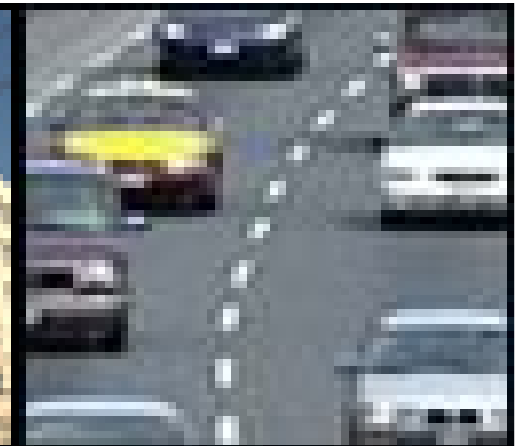


Income tax



Transfers

Federal/ Provincial
Partnership Funding



Moving Towards Fiscal Sustainability: Raising Revenues



City of Toronto Act Revenue Sources (MLTT)



Share of Federal and Provincial Gas Tax



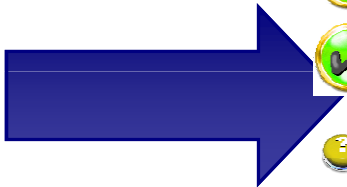
Upload Social Services (phased)



Improving business competitiveness (ppy tax policy)



New User Fee Policy



Share of Sales Tax



Provincial Transit operating funding (50%)



National Transit Strategy (capital)

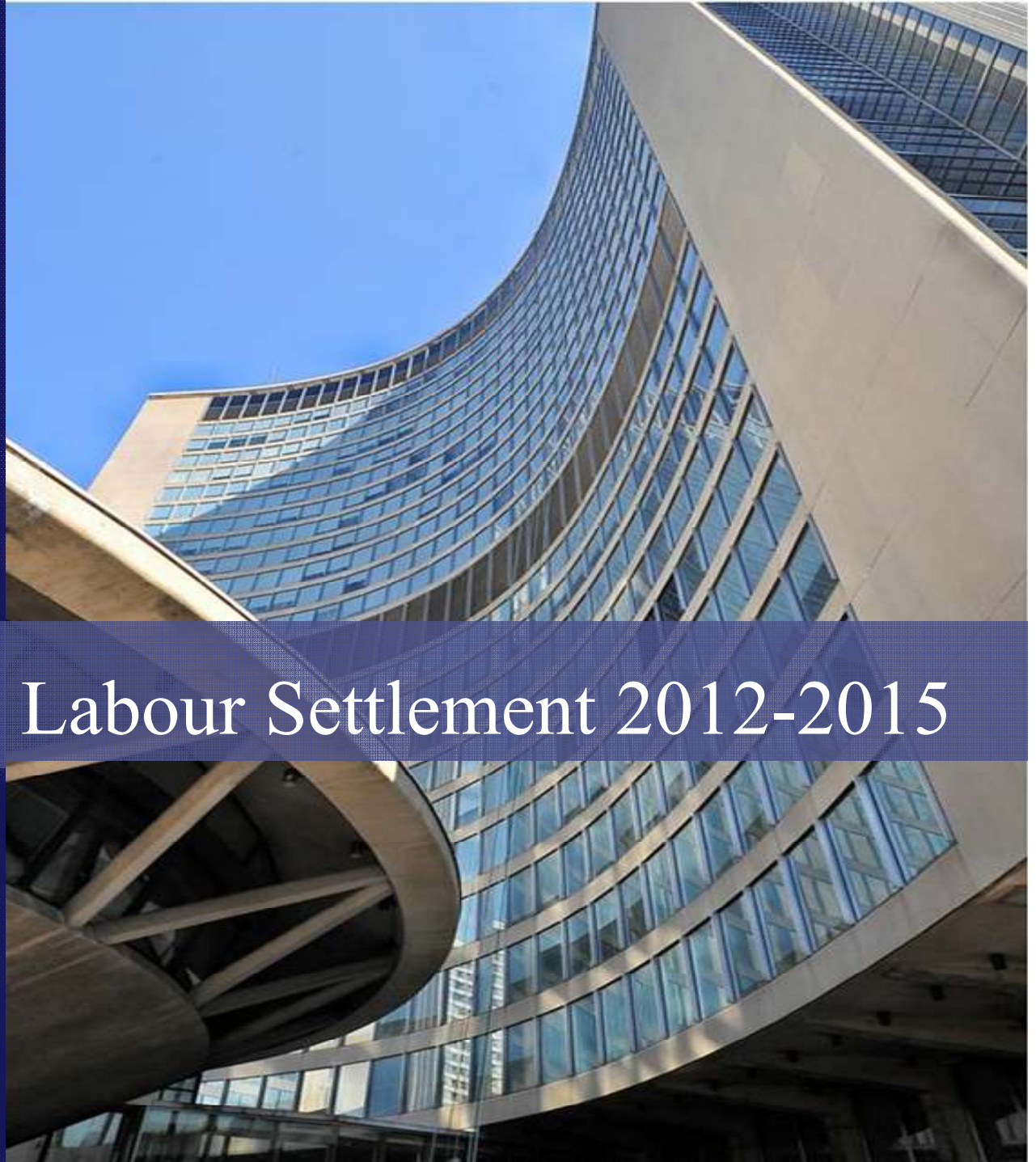


Upload Social Housing

Section 4.

Labour Settlement 2012-2015

City of Toronto



2012 Bargaining Strategy

The detailed Bargaining Strategy included:

- **Setting an ambitious compensation mandate** for a revitalized and experienced negotiation team and beginning the negotiations strategy preparations early
- Starting the negotiations process early to **avoid a summer labour disruption**
- Undertaking extensive labour disruption planning and preparation
- **Communicating clearly to the public** the city has significant budget/financial challenges and importantly need to regain control of work rules, for example, hours of work, scheduling, redeploying and job security
- Dealing with the city's main union locals separately
- **Employing a seldom-used tactic of imposing contract terms and conditions, if necessary**

Labour Settlement

- **City Council recently approved collective bargaining agreements** reached between the City with TCEU Local 416 (CUPE) and CUPE Local 79 (3 agreements) with modest base wage increases.
- **\$141 million in savings were achieved over 2012-15** from:
 - changes to work place practices and benefits, efficiency savings from workplace practices changes (\$81M)
 - benefit liabilities reduction and improvement (\$60 M)
- The new agreements:
 - **Provide significant improvements in management rights, changed job security from 0 to 15 years, streamlined redeployment and layoff processes**
 - Reflect modernized and more flexible collective agreements
 - Support flexible, adaptable and efficient delivery of services
- **Efficiency study recommendations are now more implementable** as a result of improved management flexibility (e.g., scheduling and redeployment)

Labour Settlement

Highlights of the collective agreements include:

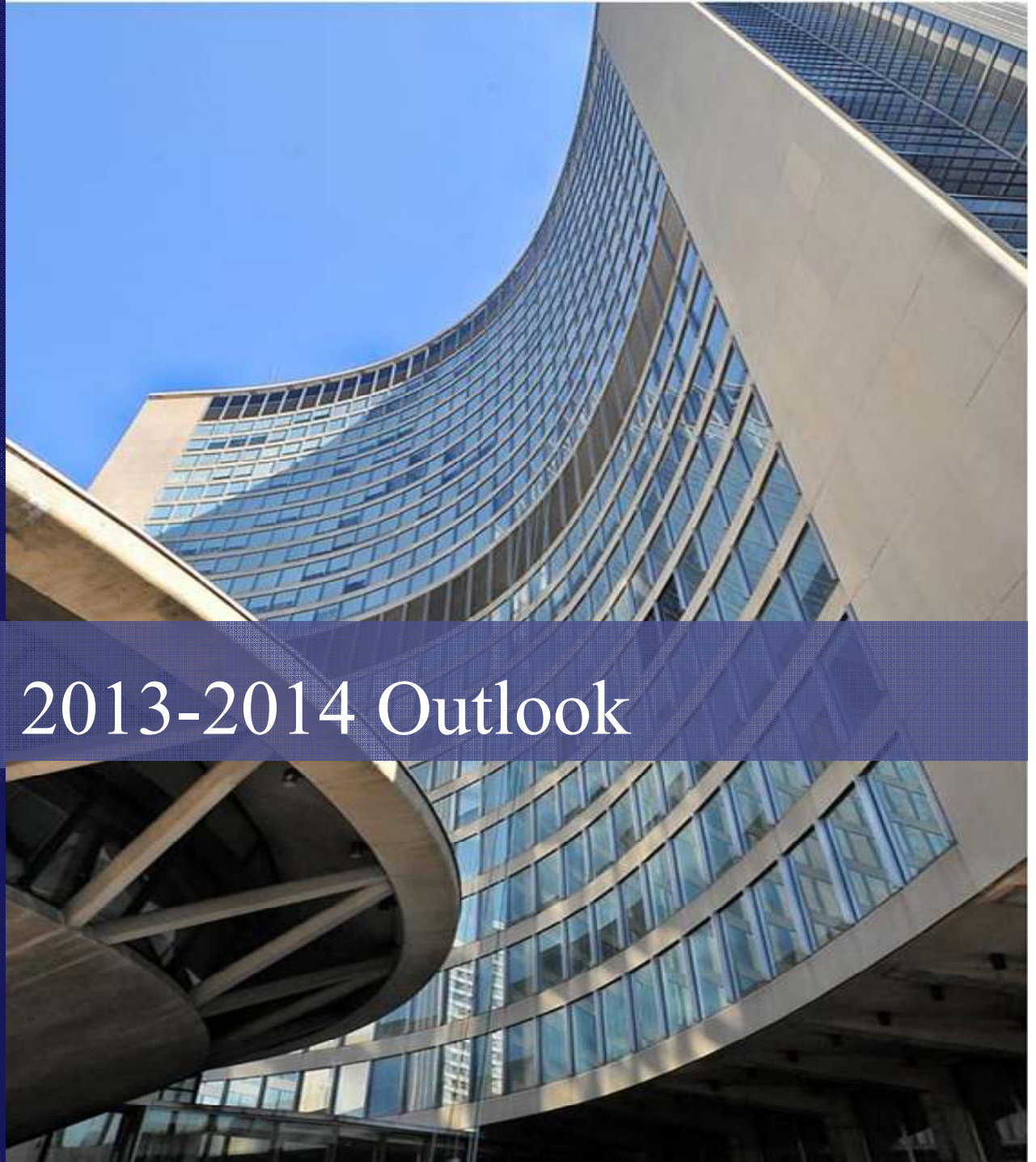
- 4 year terms (January 1, 2012 to December 31, 2015)
- Cost containment changes to the employee benefits plans (e.g., sick leave controls, \$9 dispensing fee cap, etc.)
- Wage increases:

Year beginning	Base Salary Increase (%)	One-time lump sum payment (%)
January 2012	0	0
January 2013	0.5	1.5
January 2014	1.75	0
January 2015	2.25	0
4-year Total	4.5%	

SECTION 5.

2013-2014 Outlook

City of Toronto



2013/2014 Budget Outlook

	<u>2013</u>	<u>2014</u>
City One-Time Funding		
Tax Stabilization Reserve/Prior Year Surplus	102	
Reserve Draws	39	31
Total Unsustainable Balancing Strategies	<u>141</u>	<u>31</u>
 Expenditure Changes:		
City & Agency Inflation - Labour/Non-Labour	241	251
Operating Impact of Capital	9	10
Capital Financing	37	52
Daycare Spaces		(29)
Other	37	13
Total Expenditure Changes	<u>324</u>	<u>297</u>
 Outlook Pressure Before Revenue Increases	<u>465</u>	<u>328</u>

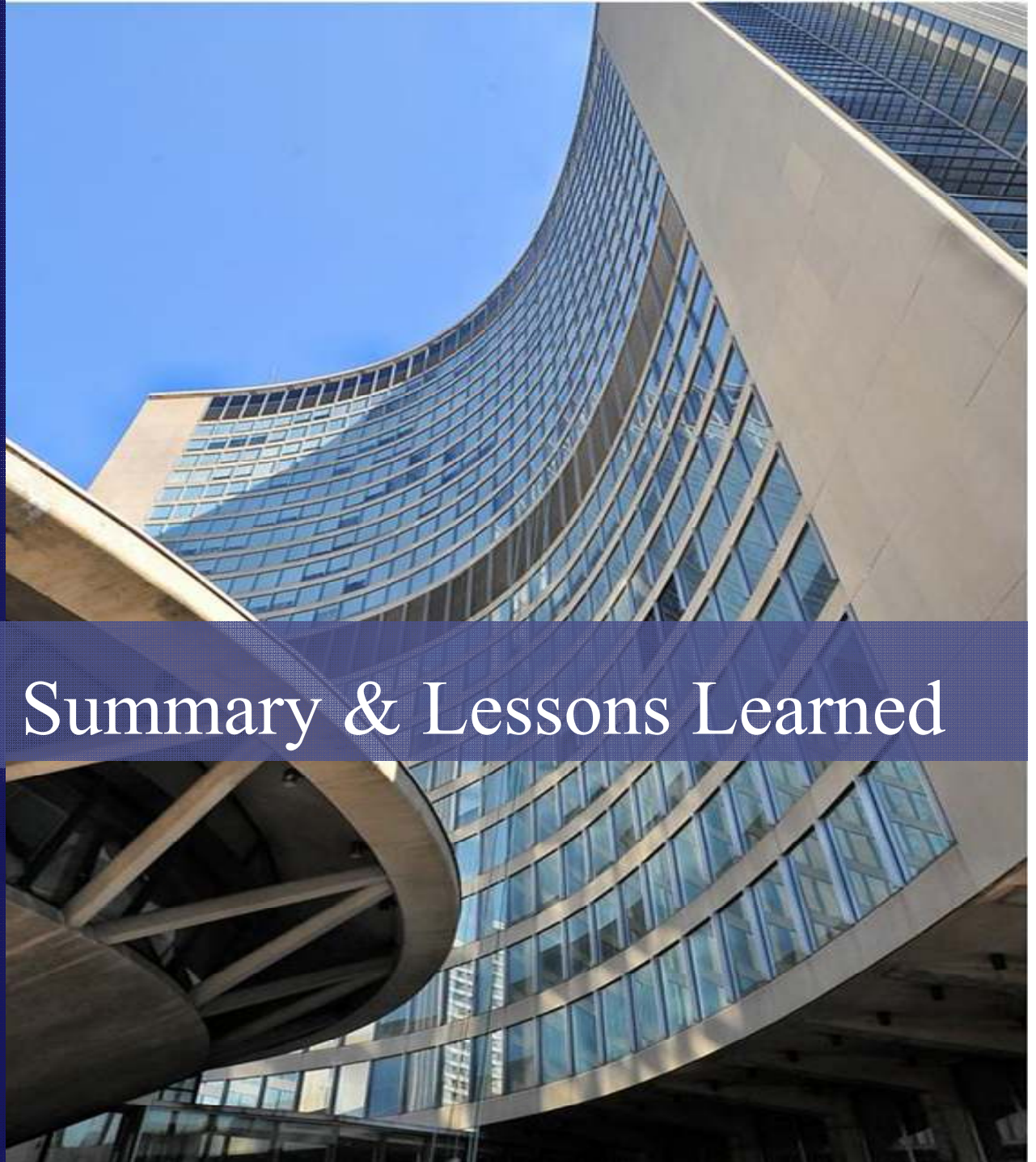
2013/ 2014 Budget Outlook- Continued

	<u>2013</u>	<u>2014</u>
Outlook Pressure Before Revenue Increases	465	328
Revenue (Increases) and Decreases:		
Economic Growth	(117)	(106)
User Fees	(15)	(20)
Upload (OW/Security)	(16)	(28)
Reserve Draws	(30)	(5)
	<u>(178)</u>	<u>(159)</u>
Future Council Decisions:		
TTC Fare Increases	(30)	(30)
Tax Increases (2.5% residential & 0.83% non-residential)	(58)	(59)
	<u>(88)</u>	<u>(89)</u>
Total Revenue (Increases) and Decreases	(266)	(248)
Outlook Pressure Before Efficiency Target	199	80
Efficiency Savings Target	(199)	(80)
Remaining Pressure	0	0

SECTION 6.

Summary & Lessons Learned

City of Toronto



In Summary

- The **Service Review Program** has laid the groundwork for the City
 - to identify the services that are core to residents and businesses,
 - identify opportunities for improving how the City delivers services
 - establish a work plan to move towards a more sustainable fiscal future for the City
- **Labour settlements**, additional **efficiency studies** and the implementation of the **user fee policy** will support the City's efforts to reach a 2012-2014 budget reduction target of \$200 M.

With the City's fiscal objectives set to be achieved by 2013/14...

- The Service Review Program has set the foundation to embark on a strategic plan update and transition to multi-year budgeting.

Council's Vision

**Toronto is a
clean, green
and
sustainable
city.**

**Toronto is a
dynamic
city**

**Toronto
invests in
quality of
life.**

**Toronto is a
caring and
friendly city.**

Council's Goals

Social Development

- *Community Capacity*
- *Well-being*
- *Equitable Access*
- *Diversity*
- *Safe City*

Economic Vitality

- *People*
- *Generating Employment*
- *Dynamic Economic Base*
- *International Image*

Environmental Sustainability

- *Environmental Awareness*
- *Environmental Sustainability*
- *Environmental Health*

Good Governance

- *Civic Participation*
- *Organizational Sustainability*
- *Intergovernmental Affairs*
- *International Relations*

City Building

- *Infrastructure for a Successful City*
- *Service Excellence*
- *Smart Urban Growth*
- *Quality of Place*

Fiscal sustainability

City Strategic Directions

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Achievements

Council terms
2000-2012





**Customer
Service
Excellence**



**Transparent
Accountable
Government**



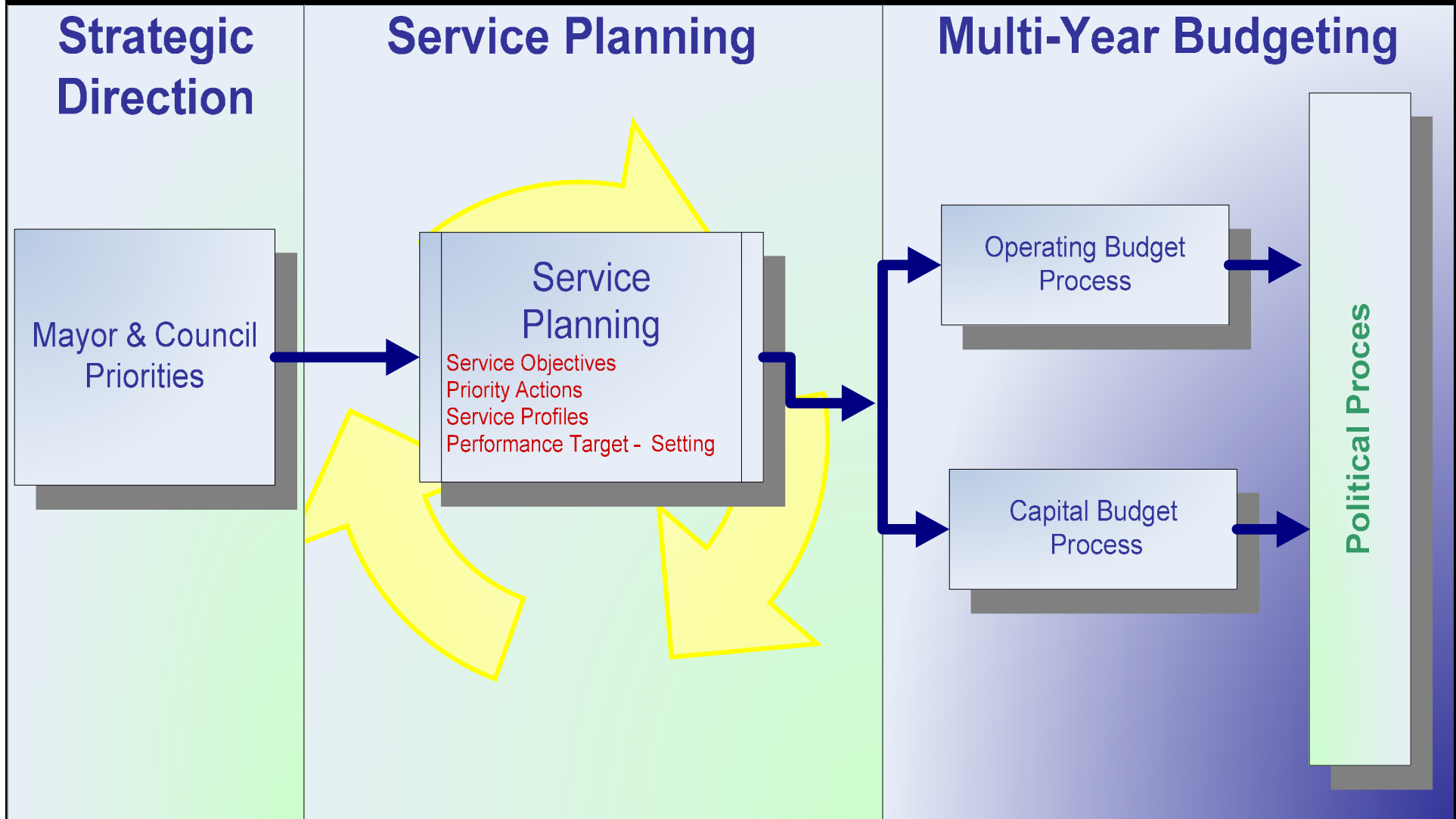
**Reducing Size
and Cost of
Government**



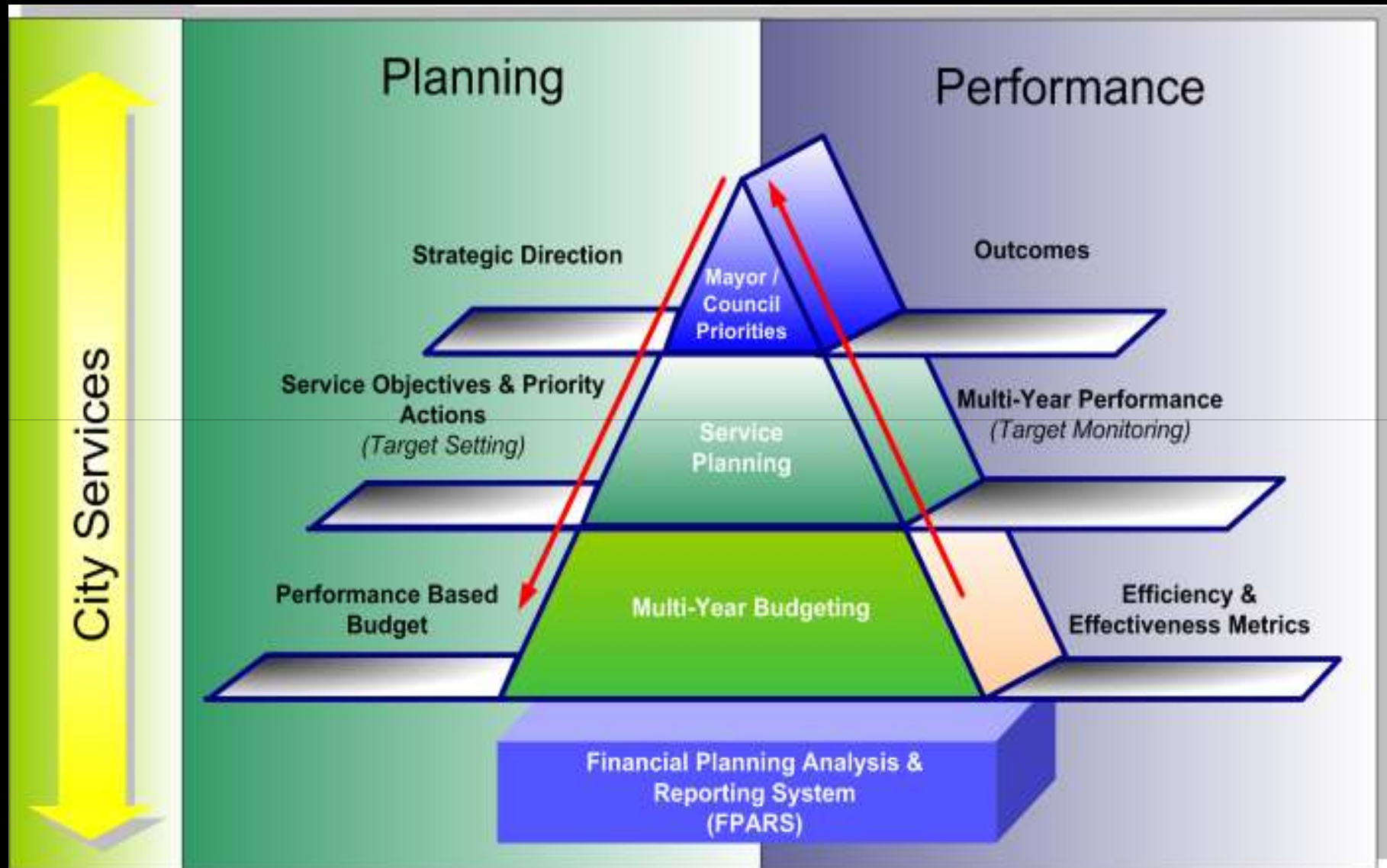
Transportation

Mayor's Priorities

Strategic Process & Multi-Year Budgeting



Creating a Performance-driven Culture



Lessons Learned: Service Review Program

What worked well:

- Political support from new administration—"Reducing Size and Cost of Government".
- Public consultation utilizing variety of public meetings and online tools in order to hear from Torontonians about the services that matter to them.
- 3rd party review and validation critical.
- Senior staff commitment- clearly established internal decision making process to achieve Service Review objectives in tight timeframe.

Lessons Learned: Service Review Program

What could be improved:

- Extend the timeframe to complete Core Service Review—1 to 2 years
- Efficiency studies- focused scope of reviews in targeted areas.
- Service Review- integrated into service plans, performance measures, and multi-year plans with specific targets for each program.
- Dedicate resources to support project management---Service Review became primary initiative in CMO work plan backlogging other priorities.

Keep in mind:

- Implementation of Service Review recommendations requires increased human and financial resources
 - \$40 M over 5 years has been earmarked to support technology capital improvements to implement efficiencies
-
-

Service Review Program Information

Information and reports can be found at:

<http://www.toronto.ca/torontoservicereview/>



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TORONTO SERVICE REVIEW

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 - [Status Report](#)
- [Core Service Review](#)
 - [Results & Reports](#)
 - [Consultation Plan](#)
 - [Discussions](#)
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Toronto Service Review

In 2011, the City of Toronto launched a Service Review Program to address a budget gap of \$774 million. The program is reviewing all of the City's services, looking at what it takes to run the country's largest, most diverse city and hearing what's important to you.

The Service Review Program includes a [Core Service Review](#) that examines which services the City should be delivering, [Service Efficiency Studies](#) that examines service levels and how specific City services are delivered to ensure the most efficient and cost-effective service delivery, and a [User Fee Review](#) that examines all user fees currently in place to determine the extent to which they are fair and collect the full cost of providing the service. The City has also implemented a multi-year financial planning process.

Read an overview of the [Toronto Service Review Program](#) and view the [program timeline](#).

On this website, you can also find information on each service, facts and figures about the City's budget and decision-making processes.



Learn

Learn about the services the City provides, what makes Toronto different from other cities, how the City makes decisions and about its budget.



Service Efficiency Studies

The Service Efficiency Studies look at how certain services are delivered to identify new and more efficient ways to deliver them at a lower cost.



Results and Reports

Read [results of the input received](#) through this public consultation.

News

[Update on the Core Service Review and Service Efficiency Studies](#)