

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015

Item 7, Report No. 10, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 23, 2015.

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PLANNING FOR THE FUTURE 2016-2019 FINANCIAL PLANNING & BUSINESS PLANNING GUIDELINES

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance and City Treasurer and the Director of Financial Planning and Analytics, dated June 15, 2015, be approved;
- 2) That the Commissioner of Finance & City Treasurer and the Acting Commissioner of Strategic and Corporate Services develop a plan for Council's approval to reward any staff member who can identify an efficiency, offset, savings or other business process that results in tangible, actionable and quantifiable budgetary benefit, such plan to include the means of calculating said reward in relation to the budgetary saving, and that a review of the suggestion program be part of this process; and
- 3) That the presentation by the Director of Financial Planning & Analytics and C3, presentation material titled: "2016-19 Budget Guidelines", be received.

Recommendation

The Commissioner of Finance and City Treasurer and the Director of Financial Planning and Analytics, in consultation with the Senior Management Team recommend:

1. That the Financial Planning and Business Planning Guidelines summarized in this report be approved; and
2. That Council endorse the proposed annual process timetable.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Financial planning is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible financial planning allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The proposed approach seeks to minimize the current year funding pressures, while meeting the requirements of sustainability.

Economic Impact

Tax rate increases set to a maximum of 3 per cent annually for the next three years.

At the January 12, 2015 meeting of the Finance, Administration and Audit Committee, the following Committee recommendation was received and subsequently approved at Council:

That recognizing the community's need for fiscal restraint, over the next few months the Finance, Administration and Audit Committee and City staff shall be directed to work toward a set target not to exceed 3% per annum for the period of 4 years

Detailed below are the recognized levy forecasts presented as part of the 2016-2018 plan. This forecast includes the budget reduction targets required for the City to achieve the directed 3 per cent tax rate increase.

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Table 1: 2016-2018 Recognized Plan

\$M	2016	2017	2018
	Recognized Plan		
Gross Operating Expenses	273.0	281.3	290.4
Less: Non-Tax Revenue	-84.8	-84.8	-85.1
Assessment Growth	-3.4	-3.8	-4.0
Levy Requirement	184.8	192.7	201.4
Budget Reduction Target	-14.6	-13.9	-16.9
Net Levy Requirement	173.3	178.7	184.4
Incremental Levy	5.1	5.4	5.7

<i>Tax Rate Increase</i>	9.87%	4.12%	4.24%
<i>Budget Reduction Target Required</i>	-6.87%	-1.12%	-1.24%
Tax Rate Increase	3.00%	3.00%	3.00%
Tax Bill Change for the Average Home*	\$39	\$41	\$42

Total Capital Program	\$106.8	\$104.5	\$64.1
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Achieving the target will require focused short and longer-term strategies

In order to reset Vaughan's financial plan on a sustainable footing, all existing recognized additional resource requests will be derecognized. A further 2 per cent preliminary expenditure savings target for each department will be implemented to help ensure that the targeted tax rate increase of 3 per cent or less can be met. Over the course of the summer City staff will discuss priorities and deliverables for the remainder of the term, including budget considerations and the development of specific efficiency and service improvement initiatives.

Budget Task Force to study reduction options

As further research and study is required to identify reductions over the remaining three years of the plan, Council created a Budget Task Force consisting of four members and supported by City staff. The mandate of the Task Force is to study options for the development of a budget reduction plan for 2016-18 to help achieve the Council's budget direction. The Task Force is expected to report its recommendations to the Finance, Administration and Audit Committee by the end of September 2015 for consideration.

Communications Plan

Subject to Council approval, financial planning guidelines, preliminary budgets and detailed instructions packages will be provided to departments along with information about due dates in late June 2015. In addition, department working/training sessions will be offered to departments to assist in preparing their financial plans.

As in prior years, a public engagement strategy will be implemented throughout the budget process to help inform the Committee's budget deliberations.

Purpose

The purpose of this report is to obtain the Finance, Administration and Audit Committee's approval for the City's financial planning guidelines and timetable.

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Background - Analysis and Options






Financial Sustainability: Always a Key Priority

The objective of the City's financial planning process is to develop a multi-year budget that balances the need to maintain existing services, accommodate growth requirements and undertake corporate initiatives against the City's capacity to fund them. The City's financial management policies and practices are based on best practices to maintain the City's strong financial position.

Fiscal Challenge

As the City moves forward, financial sustainability must continue as one of Vaughan's key priorities. With Council-mandated tax rate increases of not more than 3 per cent for the next three years, the City will need to optimize existing resources to improve service delivery and achieve budget reduction targets. The 2016 budget process will be focused on how to achieve net tax-supported budget reduction targets of \$14.6 million in 2016, \$13.9 million in 2017 and \$16.9 million in 2018.

To respond to this challenge, the financial planning guidelines are changing:

Before		Proposed
Focus on rules for adding to base department costs		Cost increases must be absorbed through offsets or efficiencies
Undifferentiated ARR evaluation process		Separate evaluation processes for growth-related and new ARRs
Unsuccessful ARRs deferred to following year		Unsuccessful ARRs not deferred but may be re-submitted in subsequent budget cycles
No limit on amount of ARRs that could be submitted		ARRs must be offset (savings, fees, assessment growth)
Guidance on increasing fees by at least the rate of inflation		Business case and timelines on achievement of cost recovery targets required
	New!	Guidelines for savings proposals that minimize impact on services

Adjustments to 2016 Forecasts will be incorporated into preliminary department budgets

To begin the process of resource optimization, all existing recognized 2016-2018 additional resource requests will be derecognized. Departments will also be expected to propose savings initiatives, with a goal of further reducing department expenditures by approximately 2 per cent relative to the 2016 forecast. Taken together, these measures will help ensure that the City meets its budget reduction targets.

The budget pressures faced by the City have built up over a number of years. Achieving sustainable long-term savings may require initiatives that take more than one year to develop and implement. That is why the immediate focus will be a moratorium on additional resource requests, except in very limited circumstances, and identifying achievable savings that can be implemented immediately. In parallel, staff will work over the summer to discuss priorities and deliverables for the remainder of the term. This will include development of efficiency and service improvement initiatives to achieve sustainable savings over the longer-term. This work will also happen in parallel to the work of the Budget Task Force. As this work proceeds, department expenditure savings targets may be refined.

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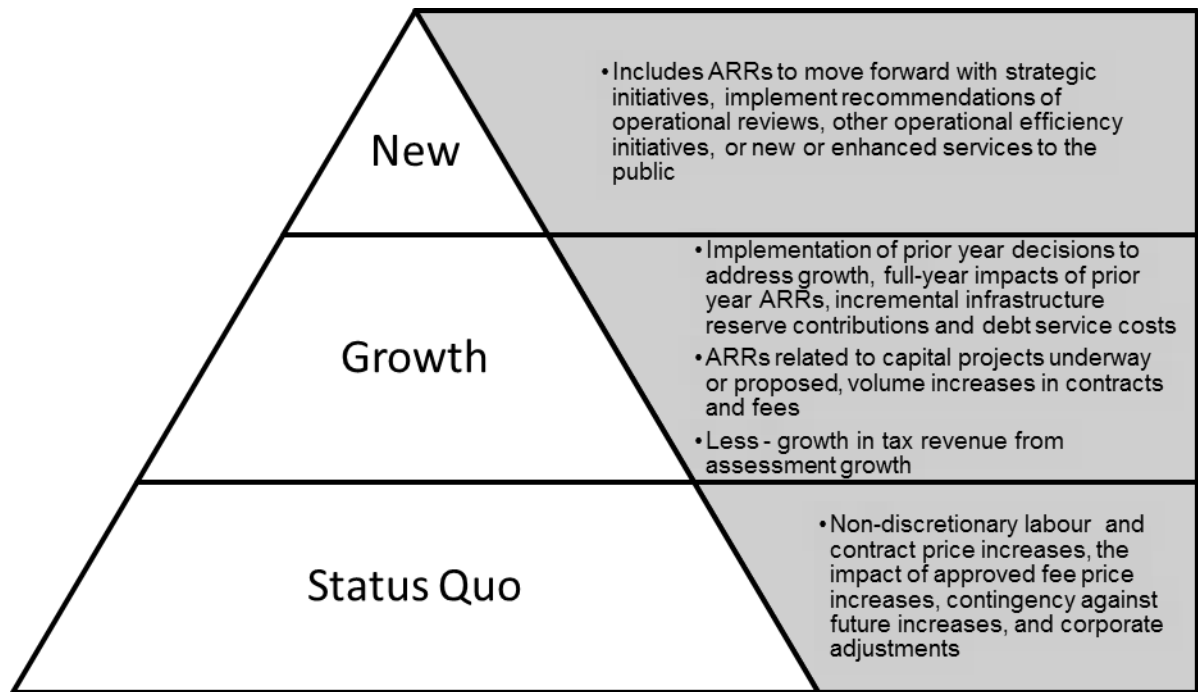
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Alignment with Business Planning

Business Plans are an important part of the corporate planning process to help establish and reinforce connections between corporate priorities, operational plans and resources. Business plans will continue to align with the multi-year financial planning timeframe in order to align department objectives, measures and pressures. This information is vital to the financial planning process as it sets the stage to assess the departments' requirements and associated resource adequacy. Department business plans should be updated in partnership with Strategic Planning. A streamlined business planning template will be distributed to departments with the detailed instructions. Budget submissions should demonstrate alignment with department business plans.

Conceptual Budget Framework

During the 2015-2018 budget cycle, the *Conceptual Budget Framework* was introduced. Budget pressures can be categorized into three main components.



Applying the Budget Framework

Status Quo

For 2016, preliminary department budgets will be set at the 2016 forecast from the Approved 2015 Budget and Recognized 2016-18 Plan less any 2016 recognized ARR's and less an expenditure reduction target of 2 per cent.

As departments work with Financial Planning & Analytics staff to develop their budget submissions and savings initiatives they should keep in mind that budget categories in the status quo may be adjusted to reflect the following items, provided that they are fiscally neutral to the department overall or fully offset by reallocations between departments. Permissible adjustments include those for:

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- Council approved employment agreements;
- Full year impact of previous Council decisions;
- External contractually committed price increases;
- Utility price increases;
- Insurance premium increases;
- Defined corporate contingency items;

It is important to note that any changes to the status quo should reflect price increases only. Cost increases resulting from additional volume or growth should be identified separately.

As noted, price increases are expected to be absorbed within overall department budgets through offsets or efficiencies. In rare cases where extraordinary price increases cannot be fully offset, consideration may be given to inter-departmental reallocations or the use of special purpose reserves.

User Fees and other non-tax revenue

In addition to tax-supported services, many services provided by the City are fully or partially funded through fees charged to users. Other sources of non-tax revenue include fines and penalties. For many of those revenue sources, Council has set cost recovery targets that departments are expected to be moving towards. As part of ongoing efforts to strike an appropriate balance between costs recovered through non-tax revenue and the property tax levy, there have been four revenue reviews underway in 2015 that could result in changes to Council policies on cost recovery targets for certain fees, fines or penalties.

For the 2016 financial planning process departments that already do charge fees or are considering the implementation of new charges, departments are expected to consider the following measures when developing their budget submission:

- Increase fees and other charges in-line with cost increases faced by the City, at a minimum. For 2016 these increases should be 3 per cent to ensure that there is no erosion of cost recovery ratios.
- Where cost recovery ratios are less than the targets set by Council, submit a business case for how the department could move to the target over the next three years or with a recommendation to change the target.
- Where there is no current cost recovery target, either a business case recommending the creation of a target or a timeline for reviewing the fees and charges to develop a target.
- Ensure that services or cost-sharing opportunities with other municipalities are fully cost-recovered
- Identify and submit business cases for the implementation of new user fees, and service charges opportunities, including recommendations on appropriate cost-recovery targets.

It is important to note that any changes to the status quo should reflect rate increases only. Revenue increases that are expected from additional volume or growth should be identified separately.

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Growth

Growth-related costs include non-discretionary and discretionary costs. To help manage budget pressures, growth related budget requests should be limited to:

- Demand driven, contractual volume changes (e.g. additional units of waste collection)
- Increased debt service and infrastructure renewal contributions as a result of new infrastructure assets going into service
- Staff and operating costs for newly opened libraries, fire stations, and community centers, including the full year impacts of previous Council decisions.

All other growth-related additional resource requests (ARRs) will only be recommended to the Committee if there is sufficient assessment growth and growth-related fee revenue available over and above the non-discretionary growth-related costs. These additional growth-related costs may be identified by departments and will be prioritized by City staff if appropriate.

New

The City faces a variety of budget pressures related to citizens' expectations for enhanced services, recommendations from completed operational reviews, and other operational efficiency initiatives. However, to help meet the budget reduction target, for 2016 all previously recognized ARRs have been derecognized. Further, non-growth related ARRs may only be (re)submitted if they can be fully offset from expenditure savings or additional non-tax revenue over and above the preliminary budget reduction target. Offsets should be identified within a department wherever possible but may include inter-department offsets within a commission. If necessary, Inter-commission offsets may be considered by City staff through their budget deliberation process.

Additional Resource Requests (ARRs)

If departments choose to submit ARRs, a separate business case must be submitted detailing strategic links, costs, benefits, implications, success indicators, timelines, capital implications and project references, etc. All ARRs, whether growth-related or new will only be included in the budget recommendation to the Committee if the City's budget reduction target has been met. New for 2016, ARRs will be separated into two separate processes and evaluation streams, growth-related and other. The Senior Management Team will review and consider ARRs over the course of the summer, while accessing priorities and deliverables to be incorporated in the draft budget and financial plan.

ARR business cases must be submitted for new staff requests, proposed increases in service levels, or new initiatives. Requests are limited to items with a gross cost in excess of \$10,000, and should be fiscally neutral. Offsets should be identified within a department wherever possible but may include inter-department offsets within a commission. If necessary, Inter-commission offsets may be considered by staff through their budget deliberation process.

Exploring Opportunities through Operational Reviews

The City of Vaughan is undergoing a tremendous transformation fueled by sustained high growth rates, increasing requirements, fiscal pressures, and citizens' rising expectations for better and faster services delivered at a lower cost. The City must anticipate and prepare for the evolving future needs of the City. To accomplish this, and continue with the City's progress, opportunities must be explored to enhance capacity and deliver effective services. To assist in this regard Operational Reviews have been implemented. Where appropriate, departments should incorporate the results of these reviews into the financial planning process.

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Savings Initiatives

All departments will be expected to submit budgets that achieve a preliminary expenditure savings target of 2 per cent. It is recognized that this is a challenging target as the pressures faced by the City are real. However, staff are committed to searching for both immediate achievable savings for 2016 and to identifying longer-term efficiency and service improvement initiatives that will help to put the City on a sustainable financial path that meets Council's objective to keep tax rate increases in Vaughan at one of the lowest rates in the GTA.

After the de-recognition of all ARRs, the remaining "Status Quo" pressure is 5.92% for 2016 which must be reduced to a maximum of 3%. While the status quo pressures for 2017 and 2018 are much lower, they are dependent on the City's ability to find permanent savings for 2016. To help meet these targets, a preliminary gross expenditure savings of 2% per department is being recommended at this time.

Departments are encouraged to explore all possible savings initiatives with the goal of limiting any impact on the programs and services that the City's residents and businesses rely on. Departments may also choose to achieve their overall saving targets through price increases for existing fees and other charges or by exploring alternative revenue generating opportunities. Savings targets could be adjusted as the results of fee reviews are incorporated into forecasts. Savings targets could also require adjustment as staff identify and develop specific efficiency and service improvement initiatives over the summer.

Capital Plan Guidelines

The preparation of the Capital Plan will require a number of issues to be taken into consideration. The pressures of new initiatives, maintaining existing infrastructure and growth requirements will need to be balanced against available funding, the impact on future operating plans and the staff resources to undertake and manage capital projects.

The objective of the guidelines is to build a responsible Capital Plan that allocates resources in a way that balances needs and aspirations of the present while meeting the requirements of longer term sustainability.

Capital Project Definition:

- A gross cost exceeding \$20,000; and
- For the purpose of constructing, acquiring or improving lands, buildings, engineering services, machinery and equipment or furniture and fixtures. The project must be undertaken for the purpose of providing municipal services, have a lasting benefit beyond one year and/or extend the life of the asset. Projects should incorporate all costs associated with getting the project ready for its intended use (i.e. license costs, survey costs, etc). Expenditures for regular repair or maintenance designed to maintain an asset in its original state are not a capital expenditure; or
- A non-capital expenditure that is related to planning for growth (i.e. planning studies, master plans, etc); or
- In special circumstances, an item of operating nature intended to avoid or smooth significant short-term spikes in the general levy. These items are typically classified as transfers, but can be projects, and authorized by the Commissioner of Finance & City Treasurer.

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Identifying Funding Sources

Proposed capital investments must have an identified funding source. Capital projects are funded from the following five main sources:

- Development/Special Area Charges Reserves
- Discretionary Reserves
- Grants and Other Financing
- Debenture Financing
- Capital from Taxation

A capital project must have the funds available in the associated reserves for the project to be considered for approval by Council.

Operating Costs Associated with Capital

Incremental operating costs associated with a proposed capital projects, must be identified and be able to be absorbed within the fiscal plan. Growth-related infrastructure will have should be staged so that related operating costs can be accommodated from assessment growth and user fee volume increases.

The Capital from Taxation preliminary envelop for 2016 – 18 is consistent with the Recognized 2016-18 Plan but will be subject to change as the budget is refined.

Financial Plan Timetable

The submission process will occur in three steps. The overall intent is to layer the submission process and allocate time for departments to focus on specific process components. This in turn will allow adequate time for submission review and feedback. The submission process stages are as follows

1. July and August – Departments meet with Strategic Planning Area to discuss business plans
2. August – Leadership planning retreat to discuss priorities and deliverables for the remainder of the term
3. Early August – Validate and submit base plans, including savings initiatives
4. End of Aug – submit ARRs, capital requests, and any additional savings initiatives

This process is designed to build the department financial plan in a systematic and logical manner. Financial Planning and Analytics staff will be actively involved with departments to provide assistance with financial plan development.

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<i>City of Vaughan</i> <i>2016 - 2019 Budget Process Timetable</i>	
Dates	Activity
June 15, 2015	Financial Planning Guidelines
June 26, 2015	Financial Planning Instructions Issued To Departments
August 7, 2015	Base Financial Plan Submissions
July - August, 2015	Business Plan meetings with Strategic Planning Department
July - August 2015	SMT preliminary 2016-19 Financial Plan Review
August 21, 2015	Final Commissioner signed Budget Submissions
September 2015	Staff review and analysis
September - October 2015	Senior Management Team (SMT) Deliberations
October 2015	Draft Budget and Presentation Finalization
November - December, 2015	Finance and Administration Committee Deliberations
January 2016	Special Council Meeting with Public Input (Public notice requirement is 14 days)

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with Vaughan Vision 2020's long term goal of financial stability through the design of guidelines intended to produce a responsible financial plan. The necessary resources have not yet been approved and will be addressed throughout future deliberations.

Regional Implications

N/A

Conclusion

The approach, guidelines and actions recommended represent prudent management practices and are appropriate given Council's direction to limit tax rate increases to 3 per cent over the remaining term of Council.

As the City moves forward, financial sustainability must continue as one of Vaughan's key priorities. These guidelines represent a systematic plan to achieve the City's budget reduction targets of \$14.6 million in 2016, \$13.9 million in 2017 and \$16.9 million in 2018.

Attachments

Not applicable

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