TO:	**CHAIR AND MEMBERS** **STRATEGIC PRIORITIES AND POLICY COMMITTEE** **MEETING ON JUNE 25, 2012**
FROM:	**MARTIN P. HAYWARD** **CITY TREASURER, CHIEF FINANCIAL OFFICER**
SUBJECT:	**2013 – 2017 BUDGET INFORMATION REPORT**

RECOMMENDATION

1. That as a result of the 2013 budget target direction provided by the Strategic Priorities and Policy Committee on April 30th, 2012, the following 2013 budget guidelines and initiatives **BE RECEIVED** for information:

    a) Civic Departments, Boards, Commissions and outside agencies will table as a starting point (in the absence of defined Council endorsed targets) a "draft" 2013 budget that maintains existing service levels across the community it being noted that the current 2013 budget forecast provided by civic department, boards, commissions, and outside agencies represents a 5.5% tax levy or $25.6 million increase over the 2012 tax levy.

    b) Civic Departments, Boards, Commissions and outside agencies will table a "draft" 2013 budget which includes scenarios and the potential service impacts associated (as highlighted in Appendix A) with a:

    - 3.8% tax levy increase from rates
    - 2.0% tax levy increase from rates
    - 0.0% tax levy increase from rates

    It being noted that any significant service impacts associated with the above scenarios be reviewed through a "business case" approach and further that the Service Review Committee be requested to review key "business cases" that may have a significant service impact to the community.

    c) Civic Departments, Boards, Commissions and outside agencies identify the costs of the extension of core services to new growth areas, it being noted that financial policy on assessment growth was approved by Council on May 22, 2012 for implementation.

2. That Council set clear 2013 to 2017 budget targets (long term) for the respective service areas, it being noted that several boards; including the London Transit Commission, London Public Library, Museum London, along with Civic Administration support long term financial planning in setting the financial framework for the municipality (see attachment Appendix B). This allows service areas to adjust to Council set targets and allows the community to absorb the changes.

RELATED REPORT PERTINENT TO THIS MATTER

2013 – 2017 Operating Budget Targets (Strategic Priorities & Policy Committee, April 30, 2012)

BACKGROUND

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For the last 2 years, the municipality has kept the tax levy increase from rates at 0%. Cost reduction from service efficiencies as well as service cuts resulted in $ 24.1 million in budget reductions to proposed budgets over the last 2 years. The 3.8% recommended tax levy target presented by Civic Administration on April 30th, 2012 was notwithstanding the projections received at 5.5% and recognized that many service areas were targeted with a 0% increase over their 2012 approved budget.

Even with that recommendation, the Strategic Priorities and Policy Committee recommended the following:

> "a) notwithstanding the updated forecasts provided by Civic Departments, Boards, Commissions and outside agencies that would indicate that a 5.5% property tax levy increase is required, the Civic Administration, Boards, Commissions and outside agencies **BE REQUESTED** to report back to the Strategic Priorities and Policy Committee with 3.8%, 2% and 0% tax increase scenarios, including the implications of those various scenarios;"

Acting on the above request, civic departments, boards, commissions, and outside agencies were requested to prepare impact statements identifying what the implications to their respective areas would be in order to achieve the three tax levy scenarios set out (refer to Appendix A). Outlined in the table below is the overall projected $ impact in millions that civic departments, boards, commissions, and outside agencies would have to reduce their cumulative forecasts by in 2013 in order to achieve 3.8%, 2.0%, and 0% tax levy increase scenarios.

2013 Tax Levy Scenarios	3.8%	2.0%	0.0%
Projected service impact in millions	$ 8.1	$ 16.4	$ 25.6

In order to allocate the impact of the 2.0% and 0% tax levy scenarios to services; Civic Administration primarily looked at reducing the service areas who under the 3.8% tax levy scenario were targeted to have an increase. For example, instead of reducing a service area that was already targeted to come in at a 0% increase, a targeted area such as London Transit would see their 2013 target reduced from a 5.7% increase to a 2.0% increase. To arrive at a 0% tax levy from rates increase, the London Transit increase would then be reduced to 0%. Even with that approach, to arrive at the 2% and 0% scenario, reductions to the overall capital plan would have to be undertaken thereby widening the current infrastructure gap.

Based on the impact scenarios received, as provided in Appendix A, it has become apparent that reductions to services to various degrees will be required.

It should be noted that to achieve the 2% and 0% tax levy scenario, some of the targets may be of challenge to some areas recognizing the legislative/ mandated framework they operate under. In setting the targets for the 2% and 0% scenarios, Civic Administration recognizes that in order to achieve the overall tax levy scenarios requested, all services and their service level should be reviewed and if need be adjusted to reflect the community's ability and willingness to pay.

2013 Property Tax Supported Budget Pressures

- Personnel Costs
    - Contractual agreements signed between the Corporation of the City of London, Boards, Commissions, and outside agencies with their respective employee groups which would have economic increases and/or benefit adjustments.

    - Increase in contribution rates to the Ontario Municipal Employees Retirement System (OMERS), approximately a 0.9% increase on salaries and wages.
- Utility Increases
    - Anticipated increases in energy costs such as electricity. The City of London received from Watts Worth that Ontario can expect annual increases in electricity between 2012 to 2015 ranging anywhere between 10% to 14%.
- Capital Financing
    - Increase in capital funding requirements required to fund the 2013 capital plan as presented as part of the 2012 Capital Budget.
    - Increase in debt servicing costs related to issuance of debt to fund capital projects approved in prior years, it being noted that at the end of 2011, the City of London had $311.3 million in authorized but unissued debt of which $134.3 million relates to the property tax supported budget.
- Flow through (annualized) costs related to initiatives approved in the 2012 budget such as additional costs related to additional staffing (policing services), and full year costs of service growth in transit.
- Inflationary pressures: Based on the Ontario Economic Outlook tabled as part of the 2012 Ontario Budget, inflation (CPI) for Ontario is anticipated to increase by 2.0% in 2013 over 2012.
- Reduced reliance on one-time funding sources.

Multiyear Budget Targets

Given the current economic climate, both locally and internationally, the importance of multiyear budget target setting from an operating budget standpoint and a capital budget standpoint has never been as critical to what it is today. By setting multiyear budget targets, services can appropriately plan for a level of service that can be sustainable from year to year. Without parameters and certainty in place, disconnects will occur where the level of service will not be sustainable on a year to year basis. For example, increasing a level of service in one year, only to have it reduced/cut the following. This variability in service delivery could be mitigated by setting multiyear budget targets (funding availability) over a 5 year period, thereby allowing service managers to better assess the level of service being provided and plan for a level of service knowing funding availability.

As part of the impact statements received back from civic departments, boards, commissions, and outside agencies, Civic Administration received the following resolutions regarding the importance of multiyear budgeting from;

London Transit Commission:

“That the commission:

> support establishing a multi-year budget program (investment strategy) for the municipality and urge Municipal Council to adopt as part of the strategy a five year operating budget philosophy which would serve to guide the effectiveness and efficiency of service decisions/directions over the five year period; and
>
> support establishing a clear congruent linkage to the business plan development and review process associated with the work of the Service Review Committee and establish a multi-year budget development process for the purpose of defining municipal priorities and setting multi-year budget (investment) targets.”

London Public Library (refer to Appendix B):

“At its meeting of May 24, 2012, the London Public Library Board unanimously endorsed (Library Board motion #) that a recommendation be made to London City Council that:

> London City Council and Civic Administration commit to the continued use of a “Multi-Year Budget Planning and Target Setting Strategy”; and that
>
> This strategy is given some level of “political stability” through a commitment by elected officials to using the multi-year process as a meaningful planning and financial programming tool.”

Civic Administration also heard from Museum London that they supported multiyear budget targets “Long term financial planning assists Museum London Board in effectively and efficiently planning its operations and in supporting the City’s budgeting efforts”.

CONCLUSION

Based on the impact statements received, as outlined in Appendix A, in order to achieve the property tax levy target of 3.8%, 2.0%, and 0%, it is recognized that unless sustainable additional non property tax supported revenue is realized, the services the City provides both directly and indirectly would have to be reduced to some extent.

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Recommended By:	
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