

BUDGET SAVINGS ACCOUNT PROPOSAL

EXECUTIVE SUMMARY

This report responds to Council's request for ways to encourage and provide incentives for business units to seek annual savings, innovation and efficiencies, within their operating and capital budgets. Attachment 1 provides a proposal for a Budget Savings Account. Attachment 2 contains the request from Administration to approve the creation of a new reserve to segregate and manage the Budget Savings Account balance.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommend that Council:

1. Approve the implementation of a Budget Savings Account as outlined in Attachment 1; and
2. Approve the creation of the Budget Savings Account as outlined in Attachment 2.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2015 MARCH 17:

That the Administration Recommendations contained in Report PFC2015-0181 be approved.

Opposition to Recommendations:

Opposed: A. Chabot

PREVIOUS COUNCIL DIRECTION / POLICY

On 2014 December 01, Council directed the City Manager to consider ways to encourage and provide incentives for business units to seek annual savings, innovation and efficiencies, within their operating and capital budgets, including, but not limited to the use of savings accounts and to present to Council through the Priorities and Finance Committee no later than Q1 2015.

BACKGROUND

Currently there are not strong incentives for a department or business unit to achieve actual results below budget. Base operating budget dollars not fully used in the current year are typically not available to the department or business unit generating the favourable budget variance. They are contributed to a corporate favourable variance which is, ultimately, transferred to the Fiscal Stability Reserve (FSR), to be used for very specific purposes. This has the potential to encourage sub-optimal spending decisions, especially near the end of the year, associated with the management of operating expenditures.

In response to citizen expectations, Council has provided clear direction to develop organization-wide strategies to increase efficiency and effectiveness.

In June 2011, Council approved the Corporate Strategy on Efficiency and Effectiveness, which highlights The City's desire to balance services with value for money through initiatives such as zero-based reviews and performance measurement and benchmarking.

The City is improving efficiency and effectiveness through a variety of approaches. This proposal will focus on the introduction of a Budget Savings Account. An account will be

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established into which qualifying savings generated by business units, through the efficient and effective management of their operating and capital budgets, will be accumulated for investment in strategic initiatives which could include debt reduction which would lower operating costs.

This proposal also supports the direction of the Leadership Strategic Plan to engage and focus administrative leadership on the shared strategic agenda and strengthen the Corporation's financial position.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration will establish a Budget Savings Account into which qualifying savings generated by business units, within their operating and capital budgets, will be accumulated for investment in strategic initiatives which could include debt reduction which would lower operating costs.

Funding for the Budget Savings Account will be generated by favourable budget variances identified by business units through the management of their operating and capital budgets. Favourable variances arising in Corporate Programs will continue to go to the Fiscal Stability Reserve (FSR) as per Council's current direction.

This initiative will start beginning in 2015. Operating and capital budget variances will be monitored and reported quarterly. Actual and projected savings will be booked each quarter. A final annual true-up adjustment will be done based on final year-end results. This schedule will help ensure accurate reporting of results and that comprehensive managerial processes are followed.

To remain responsive to current economic conditions The City will retain flexibility in the uses of these funds in the short-term. In the long-term, it is intended that funds accumulated in the Budget Savings Account will be allocated 50% to initiatives at the business unit level and 50% to initiatives at the corporate level.

The parameters around the Budget Savings Account will be adjusted as necessary as other initiatives such as vacancy management are fully developed and implemented. Vacancy management is an opportunity to consider if vacant positions should be filled as they exist or if those resources could be better used in another capacity and potentially contribute savings to the Budget Savings Account. The capacity associated with these vacancies is currently being assessed by Human Resources and Departmental Management Teams and the funding associated with certain long-term vacancies will be redistributed to the Budget Savings Account. Through vacancy management and other savings initiatives, The City is targeting total savings of \$20 million in 2015.

Stakeholder Engagement, Research and Communication

Department General Managers were provided with the opportunity to review the proposal and provide input on the development and implementation of the Budget Savings Account. Finance and Human Resources personnel are being consulted regarding the technical aspects of implementation.

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Strategic Alignment

This proposal is currently supported by Council's priority of a "well-run city" including two strategic actions: "be as efficient and effective as possible, reducing costs and focusing on value-for-money" and "examine opportunities for alternative service delivery" as identified in Action Plan 2015-2018.

Social, Environmental, Economic (External)

The social, environmental and economic benefits and risks of each project proposed to be funded out of the Budget Savings Account will be considered as funding becomes available.

Financial Capacity

Current and Future Operating Budget:

There are no immediate operating budget implications resulting from this report. Any qualifying operating budget savings will be directed to the Budget Savings Account. Operating budget requests to Council may occur should the Budget Savings Account make additional funding available. These will follow the normal approval process.

Current and Future Capital Budget:

There are no immediate capital budget implications resulting from this report. Any qualifying capital budget savings will be directed to the Budget Savings Account. Capital budget requests to Council may occur should the Budget Savings Account make additional funding available. These will follow the normal appropriation process.

Risk Assessment

There are no significant risks associated with this proposal. Operational and/or project risks will be identified and managed as initiatives are brought forward for funding from the Budget Savings Account.

REASON(S) FOR RECOMMENDATION(S):

The recommendations support Council's direction to encourage and provide incentives for business units to seek annual savings, innovation and efficiencies, within their operating and capital budgets.

ATTACHMENT(S)

1. Budget Savings Account Proposal
2. Budget Savings Account Proposal – Request to Create a New Reserve