**One Calgary Report to
Combined Meeting of Council
2019 July 22**

**ISC: UNRESTRICTED
C2019-0901**

Proposed 2019 Budget Reductions

EXECUTIVE SUMMARY

On 2019 June 10, Council directed Administration to identify permanent operating budget reductions of $60 million. These savings will be applied towards the 2019 Municipal Non-Residential Phased Tax Program and, starting in 2020, towards permanently reducing the overall share of non-residential property tax responsibility. This report recommends how the $60 million in reductions can be achieved. It provides details of the proposed reductions as well as expected impacts on performance measures, risks and other considerations.

Since receiving this direction in June, Administration has undergone a cross-corporate process to identify reductions using the guiding principles set by Council. Administration minimized the impact on citizens by identifying 19% of the reductions (approximately $11.3 million) through efficiencies, and by targeting the remaining reductions in areas that result in the least harm to citizens. That said, given the scale of the reductions and the short timeline for implementation, there are impacts to front-line services and to staff.

This report also recommends combining the 2019 Mid-Year Accountability Report (which would normally be presented to Council in September) into the 2019 Year-End Accountability Report. This is due to the challenge with reporting on plans and budgets that are currently undergoing significant changes. If approved, Council will receive a fulsome year-end update in Q1 2020 that includes an update on implementation of the 2019 budget reductions and related changes to service plans.

ADMINISTRATION RECOMMENDATION:

That Council:

1. Reconsider and amend the following motion originally approved on 2019 November 14: “That with respect to Report C2019-1158, the following be adopted: That Council adopt the 2019-2022 Service Plans and Budgets, as amended, including the associated operating and capital budgets, as identified in Revised Attachment 1”; and as further amended on 2019 July 22 with respect to Report C2019-0901 by the reductions outlined in Attachment 3 (Confidential) and the associated performance measure trend changes as outlined in Table 1 of Attachment 4 (Confidential).
2. Direct Administration to combine the 2019 Mid-Year Accountability Report into the 2019 Year-End Accountability Report.
3. Direct that Attachments 3 and 4 be held confidential pursuant to Section 24(1)(d) of the *Freedom of Information and Protection of Privacy Act*, until approved by Council.
4. Direct that Attachment 5 remain confidential pursuant to Section 24(1)(a)&(b) of the *Freedom of Information and Protection of Privacy Act* until 2034 June 30.

PREVIOUS COUNCIL DIRECTION / POLICY

At the Special Meeting of Council on 2019 June 10, Council directed Administration to identify permanent budget reductions of $60 million for the 2019 tax year and report back to Council, no later than 2019 July 31, with the details of the proposed reductions for approval. At the same meeting, Council also approved a list of guiding principles to inform this work. Attachment 1 provides a more detailed summary of the previous relevant Council direction, including the full list of Council's guiding principles.

BACKGROUND

Since approving the 2019-2022 Service Plans and Budgets in November 2018, Council directed additional budget reductions in 2019 to mitigate the redistributive effect of non-residential property assessments. The redistributive effect was caused by a sharp decline in downtown non-residential property assessments, thereby redistributing property taxes to non-residential property owners outside of the downtown. As a result, many small businesses in Calgary experienced significant increases to their tax bills despite an overall decrease in the non-residential tax rate in 2019.

Administration has responded to Council's direction and identified $60 million in permanent operating budget reductions that can be implemented in the 2019 tax year. The $60 million reduction, combined with one-time funding of $70.9 million from the Fiscal Stability Reserve and Budget Savings Account, enables The City to implement the 2019 Municipal Non-Residential Phased Tax Program (PTP) totalling $130.9 million. The PTP provides tax relief to non-residential properties that experienced the highest increase in municipal non-residential property taxes. Starting in 2020, the $60 million in permanent reductions will be applied towards permanently reducing the overall share of non-residential property tax responsibility.

Revised tax statements including the PTP credit and amended tax payable balances were mailed out to non-residential properties before the end of June. Non-residential property owners on the Tax Instalment Payment Plan (TIPP) had their revised instalments recalculated for 2019 July 01. Eligible non-residential property owners not on TIPP who didn't pay prior to the 2019 PTP decision were able to receive their revised statement and pay the revised amount prior to the 2019 June 28 deadline. Any accounts with credit balances will receive refund cheques in July. To achieve the results of the 2019 PTP implementation in a short timeframe, Administration worked collaboratively to ensure that non-residential property tax owners received the benefits of the program as quickly as possible.

The City of Calgary is continually looking for opportunities to streamline costs and improve the value and affordability of services provided to Calgarians. The $60 million in reductions outlined in this report are therefore not the only budget reductions that Administration is committed to delivering in 2019-2022. Specifically:

- $40 million in identified efficiencies are embedded in the approved 2019-2022 Service Plans and Budgets.
- Administration committed to deliver further efficiencies during the cycle – another $20 million in base budget and $40 million in one-time savings.
- In addition, in November 2018, Council directed Administration to "Find salary and wage savings to achieve a property tax increase of 2.45% in 2019...", which equates to $16.5 million in base operating budget reductions in 2019. These savings were also applied towards the 2019 non-residential tax rate change.

Administration is working to identify and deliver the savings for all these targets in parallel.

Proposed 2019 Budget Reductions

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Over the past month, Administration has undertaken a cross-corporate process to identify and recommend ways to achieve the $60 million in permanent operating budget reductions while following Council's guiding principles and minimizing the impact on front-line services.

As Council was advised by Administration on 2019 June 10, an "across-the-board" approach was taken given the short timeframe in which to achieve these reductions. Administration started by allocating the reductions across The City's services based on their proportion of the total tax-supported operating budget. In practice, this means that the services with the largest tax-supported budgets received the largest proportion of the reduction allocations. Each service owner identified how they could meet their allocated reduction targets to contribute to the $60 million with the least impact on what citizens value about City services, guided by the principles approved by Council on 2019 June 10 (see page 3 of Attachment 1).

Each department refined the reduction recommendations for the services led from their areas. Finally, the General Managers collectively took a corporate view of all the proposed reductions and made some adjustments to minimize the overall impact to citizens and best reflect Council's guiding principles.

During this process, Administration considered all the options and levers available to achieve the reductions, including: consideration of the budgets for Civic Partners, growth enabling budgets, voluntary wage roll-backs and other corporate (vs. service) tactics.

<u>Proposed 2019 budget reductions</u>

A summary of the proposed budget reductions by service is provided in Attachment 2, and the details are presented in Attachment 3 (Confidential).

As a first priority, reductions were found through efficiencies, which are budget reductions that have no adverse impact on service delivery. Of the $60 million in reductions presented in this report, at least 19% (approximately $11.3 million) will be achieved through efficiencies.

Beyond efficiencies, many of the reductions were achieved by delaying or cancelling new or enhanced service offerings. While this strategy does result in slower progress towards achieving some long-term goals, it enables The City to maintain current service offerings and minimize the impact on citizens. Examples include delay of implementation of some strategies, fewer reviews of policies and plans, and cancelling some planned service enhancements. Per Council's guiding principles, this also includes some reductions and in-year changes to contracts and the cancellation of work being done via external consultants. Work was also examined for the appropriateness of funding sources and, where appropriate, other applicable funding sources were leveraged to free up tax-supported funding.

Given the magnitude of the reductions and the short timeframe for implementation, it was not possible to avoid impacts to front-line services. Reductions to service levels were prioritized using a "least harm" approach, which targeted reductions in areas that would have the least impact on citizens, such as service offerings that are under-utilized or are relatively less valued by customers.

Significant savings can only be achieved with contributions from the largest budgets. Of the total property taxes Calgarians pay, 14% is spent on Police, 7.8% is spent on Fire & Emergency Response and 8.2% is spent on Transit. By comparison, 9.8% funds all the enabling services combined.

Despite being a small proportion of the overall budget, reductions to The City's enabling services make up a significant portion of the $60 million, accounting for approximately $7.5 million of the proposed reductions. Moreover, Fleet Management, which is funded through internal recoveries, found efficiencies that have translated into savings of over $1.0 million for both tax-supported and self-supported services. Further, it is important to note that enabling services are critical to support the delivery of front-line services. Protecting their capability to do this is important to ensure Calgarians' needs and expectations are met.

Anticipated impacts of the proposed 2019 budget reductions

Of the 260 service performance measures approved in the 2019-2022 Service Plans and Budgets, only nine measures (3%) are expected to see a significant impact. These measures are identified in Attachment 4 (Confidential). Four of the significantly-impacted performance measures are citizen-facing. The other five measures are related to areas like employee engagement, leadership impact, and satisfaction levels with internal services. These reductions will impact The City's ability to attract and retain a workforce with required competencies to meet the expectations of a modern municipal government.

Any changes in the trends of service performance measures as a result of the proposed reductions in Attachment 3 (Confidential) are brought forward for Council approval in Attachment 4 (Confidential). Not all performance measures that will be slightly- or significantly-impacted will have trend changes that require Council approval because, for some, the previously-approved trend will continue in the same direction but may be slower in pace or smaller in magnitude. Of the 34 performance measures with previously-approved trends impacted by the proposed reductions, 28 performance measures are expected to decline in performance levels; 5 performance measures were previously forecasted to improve in performance levels but are now not expected to increase as previously-planned, and 1 performance measure (related to service cost) is expected to improve in performance due to efficiency savings.

Administration's Commitments to working in a way to assist Council, employees and citizens are measured against a Corporate Performance Scorecard (see page 50 of the One Calgary 2019-2022 Service Plans and Budgets). Proposed reductions could impact the scorecard results (e.g. Calgary is a great place to make a life, Calgary is a great place to make a living, I am proud to work at The City of Calgary, Overall satisfaction with the level and quality of City services and programs), though the extent of any impact is unknown at this time. Administration will monitor the Corporate Performance Scorecard in consideration of the proposed reductions and will bring forward an update as part of the 2020 adjustments process and with the 2019 Year-End Accountability Report.

Proposed 2019 Budget Reductions

The budget reductions included in this report include reductions to The City's workforce. One of Council's guiding principles was to treat employees with dignity and respect. Where possible, services prioritized the reduction of vacant and unfilled positions or not hiring for new positions to limit direct staff impact. More information about workforce impacts will be provided to Council in a verbal update during the closed session portion of the 2019 July 22 meeting. If approved, Administration will proceed with the implementation of the proposed service changes. The first step will be to notify unions and affected employees. Full details of the reductions cannot be made public until these groups have been appropriately notified. This may take several months as a result of the processes required under various collective agreements.

Accountability reporting

In accordance with Council's Business Planning and Budgeting Policy (CFO004), The City presents accountability reports to Council twice per year, which report on progress made towards the approved plans and budgets. Given the unique circumstances this year, Administration recommends combining the 2019 Mid-Year Accountability Report (which would normally be presented to Council in September) into the 2019 Year-End Accountability Report.

This is recommended given the focus on delivering the 2019 budget reductions and identifying further savings opportunities for Council's consideration during the November 2019 adjustment deliberations. There is also a practical challenge of reporting back to Council on the approved 2019-2022 Service Plans and Budgets, while simultaneously changing the plan and budget. Instead, Administration proposes to provide Council a fulsome year-end update in Q1 2020, which will update Council on the implementation of the 2019 budget reductions, including savings realized and any impacts on service performance.

Stakeholder Engagement, Research and Communication

As part of this process, Administration asked all Council members for their views with respect to specific services or activities that Administration should consider as reduction options. A number of proposed reductions align to Council members' suggestions. Many of the responses, however, relate to more strategic decisions like outsourcing or discontinuing services altogether, which require a longer timeframe to execute and achieve savings. These longer-term ideas will be considered by Administration as part of its ongoing commitment to continuous improvement (including the proposed sub-service reviews) and will be considered as potential options for any future budget reduction targets set by Council.

Given the limited timeframe for this work, no new citizen engagement was done as part of this process. However, in considering options to reduce budgets with the least harm, Administration considered citizen and customer feedback that is collected on an ongoing basis about what is valued most about City services.

Strategic Alignment

Overall, the 2019 reductions will not impact progress for most Council Directives. However, there are some expected delays in starting new work, or reprioritization of existing work that contributes to meeting the Council Directives.

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Initial analysis has identified a potential impact on long-term plans. Work will continue to understand this more fully. Updates will be provided to Council as more information becomes available.

Social, Environmental, Economic (External)

There are important economic benefits to approving the $60 million in budget reductions, specifically the ability to shift the tax responsibility from non-residential taxpayers, which is critical to supporting Calgary's local economy. To achieve this economic benefit, there will be some impacts in other areas, including slower progress on some social and environmental initiatives. As much as possible, Administration has targeted those reductions in areas that will have the least harm to citizens and what they value about City services.

Financial Capacity

Current and Future Operating Budget:

Administration's recommendation responds to Council's direction by providing 2019 budget reductions in the amount of $60 million to support the 2019 PTP for non-residential property owners. The $60 million was combined with savings from the Fiscal Stability Reserve of $44 million and $26.9 million from the Budget Savings Account to provide a total of $130.9 million for the 2019 PTP. Starting in 2020, the $60 million in permanent reductions will be applied towards reducing the overall share of non-residential property tax accounts permanently.

Current and Future Capital Budget:

Administration's recommendation has no direct impacts to the existing capital budget. It is not currently known if the implementation of these operating reductions may have future capital budget impacts. If there are impacts to capital budgets in the future, it will be brought back to Council for approval.

Risk Assessment

The City regularly reviews, monitors and manages its Principal Corporate Risks, which are the most strategic risks that could impact The City's ability to achieve its objectives. Administration has determined five Principal Corporate Risks to watch, as we are anticipating an increase in stressors as a result of the 2019 budget reductions. The five risks are: Capacity for Change Risk, Financial Risk, Growth Risk, Reputation Risk, and Infrastructure Management Risk.

The key risks are related to: reduced resources, which would leave Administration unable to respond to emerging requirements; lower service levels in some areas, which would impact citizens' satisfaction as well as trust and confidence in The City; and a decreased ability for Administration to adapt to the evolving requirements of our still-growing city.

Further, there is a risk that some of the proposed reductions will encounter unforeseen challenges that prevent Administration from fully implementing the proposed tactics, and thus fully realizing the financial benefits in 2019. Administration has done its best to predict what is possible to implement by the end of the year and will closely monitor progress over the next few months. As outlined in a 2018 McKinsey & Company report[1], "forced efficiency improvements" (cost reductions with direct budget cuts) are often not sustained long term. It will therefore be necessary to continue monitoring for an extended period and develop alternative cost reduction strategies to replace any that cannot be maintained.

Finally, there are risks associated with not approving the $60 million in reductions, as the 2019 Phased Tax Program has already been implemented.

Administration monitors and manages its risks in a coordinated, regular, ongoing manner and will incorporate any increase in its risk profile from the proposed reductions into that process. A detailed description of the risks associated with the proposed reductions are included in Attachment 5 (Confidential).

REASON(S) FOR RECOMMENDATION(S):

1. The $60 million in proposed budget reductions, combined with one-time funding from the Fiscal Stability Reserve and Budget Savings Account, enable The City to implement the 2019 Phased Tax Program. Starting in 2020, the $60 million in permanent reductions will be applied towards permanently reducing the overall share of non-residential property tax responsibility. The proposed 2019 budget reductions were informed by the guiding principles set by Council and minimize the impact on front-line services as much as possible.
2. Combining the 2019 Mid-Year Accountability Report with the 2019 Year-End Accountability Report will enable Administration to adequately assess Council's direction to find significant efficiencies and reductions and to put forward a more meaningful report at year-end. This recommendation also reflects the limited capacity for staff to undertake this work right now.
3. Given the scale of the 2019 budget reductions, there are some impacts to The City's workforce that need to be managed and communicated carefully with City staff. Administration is recommending that the information in Attachments 3 and 4 be held confidential until approved by Council. This is in accordance with Section 24(1)(d) of the *Freedom of Information and Protection of Privacy Act*, and is necessary for the respectful treatment of City employees.
4. It is recommended that Attachment 5 remain confidential for a period of 15 years to maintain a balance between comprehensive reporting, transparency and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm. This is consistent with the approach taken through the semi-annual reporting of Principal Corporate Risks to the Audit Committee.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction
2. Attachment 2 – Summary of Proposed Reductions by Service
3. Attachment 3 – Details of Proposed Reductions by Service (Confidential)
4. Attachment 4 – Changes to Approved Performance Measure Trends (Confidential)
5. Attachment 5 – Risk Analysis (Confidential)

[1] McKinsey & Company, "A smarter approach to cost reduction in the public sector" (April 2018)