

Budget Savings Account Proposal
2015 March 17

PFC2015-0181
ATTACHMENT 1

Current Situation

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.

Under certain circumstances, unspent one-time operating expenditures can be carried forward with appropriate approvals, and unspent capital budgets can be carried forward to future years but, generally, there are limited opportunities to rollover favourable operating budget variances into future periods.

Council Direction

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.

A zero-based review is an examination of all aspects of an existing service, including scope, service level, alignment to long-term policy goals, as well as potential efficiencies in the way services are delivered. Several zero-based reviews have been successfully executed in the last 3 years and several more are in-progress or planned.

Performance measurement and benchmarking of a program or service helps determine if it is achieving results and identifies successes and opportunities for improvement. Performance measures and benchmarking are widely used by business units and are included in The City's 2015-2018 Action Plan.

On 2014 December 01, Council approved the following:

"That Council direct 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 bring a report to Council through the Priorities and Finance Committee no later than Q1 2015."

The City is improving efficiency and effectiveness through a variety of approaches including zero-based reviews and performance measurement and benchmarking, as discussed above. This proposal will focus on the introduction of a Budget Savings Account. This involves the establishment of an account into which qualifying savings generated by business units, through the efficient and effective management of their operating and capital budgets, will be

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accumulated for investment in strategic initiatives which could include debt reduction which would lower operating costs.

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". 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.

Benefits

The current economic environment provides an opportunity for The City to build on recognized strengths of sound financial management and projections of long-term growth. This proposal has several benefits to assist Council in responding to economic uncertainty, satisfying citizen expectations and promote savings, efficiency and innovation within the organization.

It provides an incentive for business units to efficiently manage their service delivery and benefit from the resulting savings. It also encourages spending decisions that support the prudent management of operating budget dollars. In addition, a savings account creates additional financial capacity to achieve goals and provide services that are valued and expected by Calgarians.

Proposal

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.

One Budget Savings Account will be established to accumulate savings, segregated by operating and capital, for all business units, and includes Calgary Police Services. The Utilities will also participate in achieving savings and those savings will be reported. However, savings identified by Utilities will be retained for their internal strategic purposes. Any savings identified by Civic Partners will also be included in the Savings Account.

The parameters around the Budget Saving 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 initiatives, The City is targeting total savings of \$20 million in 2015.

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Funding

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 and through the vacancy management process. Favourable variances arising in Corporate Programs will continue to go to the Fiscal Stability Reserve 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.

Operating

Favourable tax-supported operating budget variances are currently transferred to the FSR. The FSR is intended for the following purposes: a contingency fund for operational emergencies, urgent or contingency capital expenditures; to compensate for unplanned revenue reductions with significant financial impacts; and to fund one-time operating budget expenditures (investment income only). Under the Budget Savings Account proposal over the long-term, a portion of this favourable operating budget variance would be directed into a savings account that would be used to fund other initiatives of importance to business units, at a corporate level, and with Council approval. It is anticipated that in the future, funds accumulated in this account will be allocated 50% to initiatives at the business unit level and 50% to initiatives at the corporate level. However, to remain responsive to the current economic environment, The City will retain flexibility in the uses of these funds in the short-term.

This initiative will require the creation of a new reserve to accumulate savings identified for reinvestment. The parameters around the Budget Savings Account will be adjusted as necessary as other initiatives such as vacancy management are fully developed and implemented.

Capital

There are several external and internal sources of capital funding including: grants from other orders of government; debt; pay-as-you-go; reserves; and acreage assessments. Savings to existing appropriations resulting from revisions to the capital budget are currently returned to the original funding source. These funding sources are subject to restrictions which potentially limit the uses of any funds saved. Any potential capital savings identified would require disposition in a manner consistent with the terms and conditions of any governing policies or agreements. For the purpose of this proposal capital budget savings are considered to be the favourable capital budget variance remaining upon completion of the total capital project, and not subject to conditions or restrictions at the source of funding.

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Other Considerations

Projects and initiatives funded from the Budget Savings Account should be one-time operating or capital items and not in base budgets consistent with principles of prudent financial management.