

One Calgary Report to
Priorities and Finance Committee
2019 May 14

ISC: UNRESTRICTED
PFC2019-0585

Prioritizing next steps to streamline the cost of municipal government

EXECUTIVE SUMMARY

Since Council's approval of the 2019-2022 Service Plans and Budgets in November 2018, Council has expressed the need to reduce costs below what was approved. Administration has received varying direction from Council about the best way to achieve further reductions, which can broadly be categorized as follows:

- Examine the scope of services and sub-services provided by The City;
- Continue to deliver efficiencies (i.e. the same or better service level at a lower cost), through optimizing operations and reducing waste; and
- Immediate budget reductions.

Each of these undertakings is significant and resource intensive, and Administration is unable to deliver a big corporate push in all three areas simultaneously while continuing to execute on the approved One Calgary plans. Further, these strategies are at odds with each other in terms of timelines, mindset, and tactics required. The first two strategies are longer-term endeavours to improve financial sustainability through thoughtful and deliberate changes to service delivery, and they rely on an organizational culture of continuous improvement. The third strategy could provide immediate financial benefits, but comes at the cost of less strategic service cuts that will likely impact citizen satisfaction and undermines the longer-term organizational culture change.

This report outlines the challenges Administration is facing to meet Council's expectations on all three fronts simultaneously and proposes a focused and staggered approach to reducing costs that is achievable and aligned with the longer-term organizational transformation underway. Clear and realistic expectations are needed to enable Administration to meet Council's needs, particularly in advance of the 2020 adjustments process in November.

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ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. Reconsider its motion on 2019 April 01 "That Council direct Administration to provide operating budget reduction options/scenarios (equating to a budget freeze) as part of the One Calgary mid-cycle budget deliberations."
2. Direct Administration to deliver on the next steps to streamline costs, as follows:
 - a. Develop The City's portfolio of sub-services (May-Sept 2019).
 - b. Support Council to review the list of sub-services and identify areas for further investigation where scope could potentially be reduced (Sept 2019).
 - c. Undertake service reviews in the areas selected by Council and implement recommendations (2020-2022+).
 - d. Deliver existing efficiency and saving commitments already approved within the plans and budgets, and continue delivering the ZBR program (2019-2022).
 - e. Bring forward targeted budget reduction information to the mid-cycle adjustment in November 2020. Work with Council to determine an appropriate magnitude and scope for these reductions (Nov 2020).

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2019 MAY 14:

That Council:

1. Reconsider **and rescind** its motion on 2019 April 01 "That Council direct Administration to provide operating budget reduction options/scenarios (equating to a budget freeze) as part of the One Calgary mid-cycle budget deliberations."
2. **Bring reduction package options for tax supported services equivalent to tax increases of 2%, 1.5%, 1.0%, 0.5% and 0% to Council's budget deliberations in 2019 November for the 2020 tax year including, but not limited to impacts on services, wages and head count;**
3. Direct Administration to deliver on the next steps to streamline costs, as follows:
 - a. Develop The City's portfolio of sub-services (May-Sept 2019).
 - b. Support Council to review the list of sub-services and identify areas for further investigation where scope could potentially be reduced **and budget targets for 2021 and 2022**
 - c. Undertake service reviews in the areas **selected by Council (2020-2022+)**.
 - d. Deliver existing efficiency and saving commitments already approved within the plans and budgets, and continue delivering the ZBR program (2019-2022).
 - e. Bring forward targeted budget reduction information to the mid-cycle adjustment in November 2020. Work with Council to determine an appropriate magnitude and scope for these reductions (Nov 2020).

Opposition to Recommendations:

Recommendation 2: Against: Councillor Farrell

Recommendations 3 a, b and c: Against: Mayor Nenshi, Councillor Colley-Urquhart, Councillor Woolley, and Councillor Farrell

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PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 November 30, Council approved the One Calgary 2019-2022 Service Plans and Budgets (C2018-1158). This marked the approval of The City's strategy for service delivery over the next four years and the beginning of the execution phase of these plans. The approval included a requirement to find \$16.5 million in workforce savings from the base in 2019 and a total of \$100 million in savings (\$60 million in addition to the \$40 million included in the approved plans and budgets) to be found throughout the four years. \$20 million of this additional \$60 million is part of the base efficiencies that Administration committed to in July, and the remaining \$40 million is to fund the one-time budget strategy presented in November 2018.

At the same meeting, Council also approved the following motion:

"To better inform mid-cycle budget considerations and to shape the focus of anticipated Zero-Based Reviews, direct Administration (specifically Corporate Initiatives and Intergovernmental & Corporate Strategy) to work with Mayor Nenshi and Cllrs. Colley-Urquhart and Gondek in drafting the agenda and outcomes for the January 28, 2019 Strategic Meeting of Council that will accomplish the goals of:

- a. setting Council strategic priorities for the remainder of the term;
- b. discussing the major unfunded capital projects; and
- c. inform the agenda and outcomes for a subsequent session to conduct a review of the 61 service lines (and subsets) before the end of Q3 2019."

On 2019 April 01, Council approved a further motion:

"That Council direct the Administration to provide operating budget reduction options/scenarios (equating to a budget freeze) as part of the One Calgary mid-cycle budget deliberations."

Subsequent conversations confirmed that Council's expectation is to have budget reduction options in November 2019, equivalent to freezing the operating budget at 2019 levels. The difference between the approved total 2019 and 2020 gross expenditures (net of recoveries) is \$148M for the total City, including Police, Fire and Utilities. Further background and considerations regarding Council's previous direction is outlined in Attachments 1 and 2.

BACKGROUND

For the last 10 years, Administration and Council have been on a journey to transform The City of Calgary to be more efficient and effective at delivering services to citizens. A complementary report to this one (PFC2019-0550) provides an overview of the leading-edge work undertaken by The City to reduce costs, including the Zero-Based Review (ZBR) program and delivering over \$600 million in savings, efficiencies, and reductions in 2015-2018.

Heading into the 2019-2022 cycle, Administration and Council needed to continue the emphasis on cost savings in the face of continued financial challenges, which required new strategies and tactics. The One Calgary program was initiated to leverage the planning and budgeting process to advance two cultural transformations: from a department-based to a service-based mindset, and from a "responding to growth" mindset to a "constraint environment" mindset.

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As part of the One Calgary process, all services prepared information about customer service impacts in the event of a budget freeze and at various reduction scenarios. The purpose was to better understand where capacity could be generated based on some services offering reductions or freezes, allowing other services to invest according to Council Directives. This was a fully corporate approach where all services participated. It was based on a common understanding that the identification of reductions and efficiencies is the responsibility of all services, embodying our values of individual responsibility and collective accountability.

As a result of this work, Council approved a plan and budget in November 2018 that included budget freezes or reductions for some services (particularly for some of The City's enabling services), while allowing further investment in high priority services (such as Affordable Housing, Public Transit and Police Services). This innovative and thoughtful approach has made The City of Calgary a municipal leader in planning and budgeting in North America.

In addition to targeting investments in high priority areas, the 2019-2022 Service Plans and Budgets included a corporate commitment to deliver savings, including a commitment to find \$16.5 million in workforce savings from the base in 2019 as well as a total of \$100 million in efficiencies and other savings to be found throughout the four years. All this work enabled Administration to propose a tax rate increase for service delivery in 2019-2022 that was below the rate of inflation and population growth (before adding the tax rate increase to support new and actively developing community growth, per Council direction).

The focus of Administration is now on delivering the approved service plans. Over the next four years, the execution, monitoring and adjustment of the approved plans will mean that citizens are better off in 2022.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Even with the significant progress made over the past 10 years, Council understandably expects to see more work done by Administration to reduce costs. To be most effective, this work requires clear focus and alignment of efforts among Council and Administration.

In recent months, Administration has received varying direction from Council about the best way to move forward, which can broadly be categorized into the three strategies below:

1. **Examine the scope of City services and sub-services:** Council has increasingly expressed a desire to examine fundamental questions about the scope of services provided, including whether there are any services or sub-services that could be discontinued. This includes examining whether any City services should be provided by another level of government or the private sector. The first step in this process is to define and create a list of sub-services. As outlined in Attachment 2, this work is underway and a complete list of sub-services will be brought to Council in September.
2. **Continue to deliver efficiencies through optimizing operations and reducing waste:** Administration is regularly looking for new and innovative ways to reduce costs and realize efficiencies (without impacting service levels) through optimization and streamlining of operations. For example, this could include leveraging technology solutions or centralizing processes across City services. Administration has committed to

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find \$100 million in savings in 2019-2022, per the approved Service Plans and Budgets, and is continually identifying efficiencies through the ZBR program and other initiatives.

3. **Immediate budget reductions:** Council has also expressed a desire for immediate budget reductions to reduce taxes, rates and fees for citizens and businesses, even if this means a lower level of service. As outlined in Attachment 1, the magnitude of a budget freeze to 2019 levels in 2020 is \$148 million in City total operating expenditures. This is a significant amount and would result in reduced service levels.

While Administration is continually leveraging different tactics to reduce costs, it is not possible to deliver a big corporate push in all three areas simultaneously. Attachment 3 outlines how each of these strategies differ in terms of tactics, timeline to realize benefits, impact on citizens, and The City's organizational culture. As outlined, the strategies not only require different tactics but are also fundamentally at odds with each other – pursuing one approach can come at the expense of another.

Further, there are limited resources within the organization to do this type of work and therefore it is important to focus efforts on the top priorities. With the approval of the 2019-2022 Service Plans and Budgets, the organization is now focused on executing the approved plans. The vast majority of City employees and resources are directed to day-to-day service delivery, and there is a limit to how much corporate work can be undertaken before it starts to take away from the focus on service delivery.

Finally, there is a logical order to some of these tactics that should be considered. For example, there is a risk of wasting time and resources streamlining the operations of a service that Council would ultimately prefer to discontinue offering.

For these reasons, it is important to be thoughtful and deliberate about which approach is being utilized, and Administration and Council should be aligned and focused on the chosen strategy.

Recommended strategy for 2019-2022

Without a focused strategy to further streamline the cost of City services, there is a risk that Administration will not be able to successfully deliver on any of these strategies and could unintentionally undermine future efforts. Administration is therefore looking for Council's direction on how to prioritize this work in 2019 and in the remainder of the four-year cycle.


Table 1 (on page 5) outlines Administration's recommendation for a long-term strategy that focuses first on supporting Council to begin examining the scope of City services provided. This would mean directing corporate efforts towards this work in 2019 and delaying further work on immediate budget reduction options until the mid-cycle adjustment in November 2020.

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Table 1: Proposed next steps to streamline the cost of municipal government

Examine scope of City services and sub-services	Find \$100M as committed in the 2019-2022 Service Plans and Budgets	Immediate budget reductions
Order of priority 		
<p>Develop The City's portfolio of sub-services. (May-Sept 2019)</p> <p>Support Council to review the list of sub-services and identify areas for further investigation where scope could potentially be reduced. (Sept 2019)</p> <p>Undertake service reviews in the areas selected by Council and implement recommendations. (2020-2022+)</p>	<p>Deliver existing efficiency and saving commitments already approved within the plans and budgets, and continue delivering the ZBR program. (2019-2022)</p>	<p>Bring forward targeted budget reduction information to the mid-cycle adjustment in November 2020. Work with Council to determine an appropriate magnitude and scope for these reductions. (Nov 2020)</p>

Administration's recommendation continues The City on its current transformation to become a more citizen-oriented and service-oriented organization, and supports Council to ask fundamental questions about the scope of services provided. This work creates a more financially sustainable municipality in the long term and leads to innovative solutions for reducing costs with the least harm to citizens.

If Council instead directs Administration to focus first on preparing immediate budget reductions for consideration in November 2019 (per their motion on 2019 April 01), this could deliver short-term financial benefits but would come at the expense of longer-term objectives. It would require delaying work on the Council review of services and sub-services, would result in less strategic service cuts that are likely to impact citizen satisfaction, and would undermine the longer-term organizational culture change underway.

Stakeholder Engagement, Research and Communication

If Administration's recommendation is approved, the next steps to engage Council would be as follows:

- **July 16 – Strategic Council Meeting:** Full-day workshop to get Council's input on specific strategies going forward to streamline the cost of government, per the proposed Strategic Council Meeting topics outlined in report PFC2019-0369. Note that the full list of sub-services will not be presented at this session, but in September (see below).
- **September 17 – Priorities and Finance Committee:** Present the 2019 Mid-Year Accountability Report, including an update on performance and highlights of efforts to

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reduce costs and implement efficiencies. This will include information on ongoing continuous improvement efforts.

- **September (date TBD) – Special Meeting of Council:** Present the list of sub-services and get Council direction on which areas require more in-depth review. Provide further detail on the specific areas where savings are being made to meet existing savings commitments, and update on options for further savings.
- **November 25-29 – Council Deliberations:** Plan and budget adjustments for remaining three years of the cycle (2020-2022).

Strategic Alignment

The work of One Calgary supports the organization in achieving the Citizen Priority of “A Well-Run City: Calgary has a modern and efficient municipal government that is focused on resilience and continuous improvement to make life better every day for Calgarians by learning from citizens, partners, and others.”

Social, Environmental, Economic (External)

Social, environmental and economic guidance is provided through City policies, Citizen Priorities and Council Directives, all of which will guide Administration when proposing plan and budget adjustments to Council, including prioritization of potential budget reductions.

Financial Capacity

Current and Future Operating Budget:

Decisions made on the 2019-2022 strategy to streamline the cost of government will impact the use of resources in the current 2019 budget and the use of resources and overall size of the budget in 2020 to 2022.

Current and Future Capital Budget:

Decisions made on the 2019-2022 strategy to streamline the cost of government will impact the current anticipated plan for capital budget resources in the pursuit of customer services. Capital implications and options will be considered throughout.

Risk Assessment

The primary risk of approving Administration's recommendation is that it will not meet the expectation of Council for immediate budget reductions for consideration in November 2019. Administration will continue to deliver efficiencies and reductions (including targeted budget reduction information at the mid-cycle adjustment in November 2020), demonstrating its commitment to streamlining the cost of government. Furthermore, Administration recognizes the need to improve communication with citizens about the value they get for their tax dollars and the leading-edge work already underway to improve services while reducing costs, including the proposed next steps to continue reducing costs in 2019-2022. To that end, Administration is currently developing a public communication campaign that will build on the examples of service improvement highlighted in report PFC2019-0550.

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If Council instead chooses to focus Administration's efforts in 2019 on immediate, across-the-board cuts, there is a significant risk that this will come at the expense of less strategic service cuts, which will have an immediate impact on citizens. This would likely result in reputational issues about the quality of City services and potentially lower the perceived value of tax dollars. Further, this approach would undermine the broader organizational change underway – immediate, across-the-board budget cuts tend to hurt productivity and reinforce siloed and competitive behaviours. As such, it would undermine the longer-term strategy to streamline costs and continually find efficiencies through being more collaborative and service-oriented.

Attempting a big corporate push in all areas at once, in addition to Administration's focus on executing the approved plans and budgets, will likely mean that none of them is done well, and could potentially undermine future efforts.

REASON(S) FOR RECOMMENDATION(S):

Administration needs to ensure sufficient resources are in place, and its recommendation would sustain the progress made to date on One Calgary, both in terms of the broader organizational culture change and the leading-edge planning and budgeting practices. This takes a longer-term view of the journey to create a culture of continuous improvement and make thoughtful and deliberate decisions about where to reduce service scope in ways that reduce costs with least harm to citizens.

ATTACHMENT(S)

1. Unpacking Council's "budget freeze" motion
2. Sub-services: A necessary step in maturing the service approach
3. Comparison of cost saving strategies