

CORPORATE PLANNING & FINANCIAL OUTLOOK

November 23, 2010



AGENDA

- Corporate Planning Framework Overview (Info)
- Asset (capital) outlook
- Update from 2010/11 Budget
- Planning for 2011/12 and beyond
- Do we have a problem? Why?
- Positive developments
- Solutions & planning assumptions



Direction Sought

- 11/12 & 12/13 Budget Approach
- Budget & Business Plan Program Schedule
- December 13th -14th Strategic Planning Session Outcomes

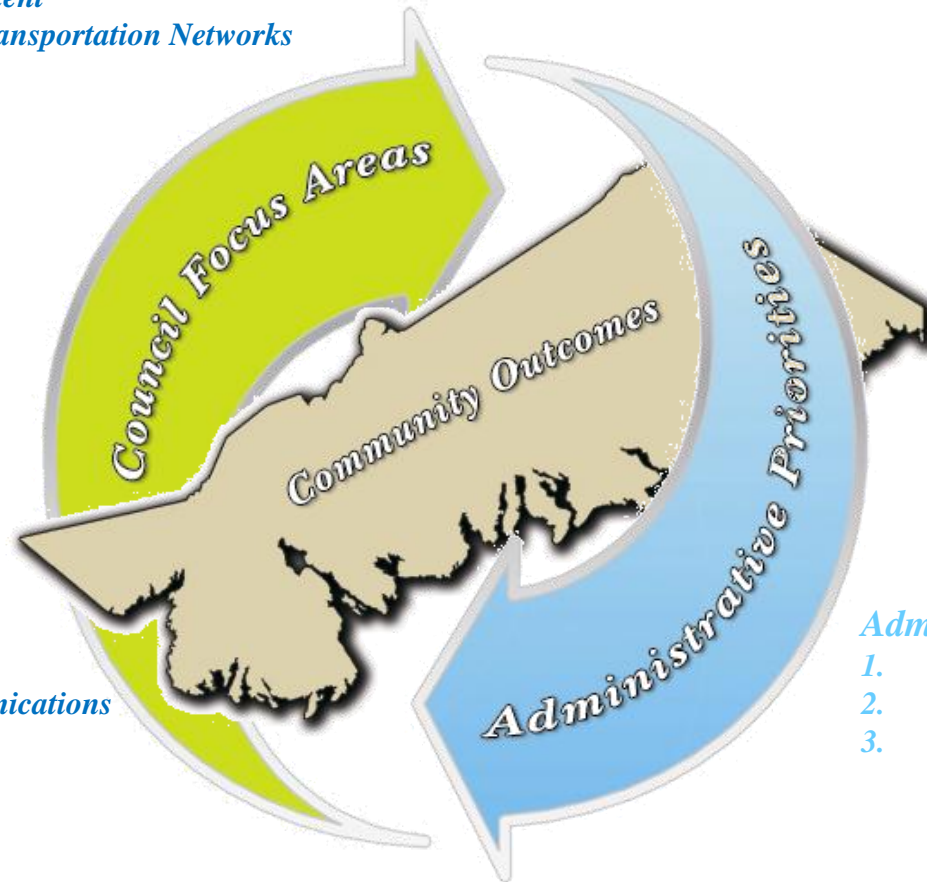
CORPORATE PLANNING FRAMEWORK



Summary of HRM's Priorities

Community Outcome Areas

1. *Safe & Welcoming Communities*
2. *Diverse Recreation, Leisure & Cultural Choices*
3. *Well Planned & Engaged Communities*
4. *Clean & Healthy Environment*
5. *Integrated & Affordable Transportation Networks*
6. *Economic Prosperity*



Council Focus Areas

1. *Community Planning*
2. *Governance & Communications*
3. *Infrastructure*
4. *Public Safety*
5. *Transportation*

Administrative Priorities

1. *Fiscal Responsibility*
2. *Employer of Choice*
3. *Excellence in Service Delivery*

ASSET OUTLOOK

Asset Category	Book Value @ Mar.31/10
Buildings	\$252.4M
Dams	\$0.5M
Ferries	\$18.5M
Land	\$259.7M
Land Improvements	\$181.2M
Leasehold Improvements	\$3.0M
Machinery & Equipment	\$57.1M
Road Infrastructure	\$1566.0M
Vehicles	\$142.3M
Assets Under Construction	<u>\$263.3M</u>
Total	\$2,744.0M

ASSET OUTLOOK

What does this include?

278 Buildings

1,760 Kilometres of Roads

1,196 Vehicles/Self Propelled Equip.

793 Parks

Annual Maintenance Requirements: \$ 89M

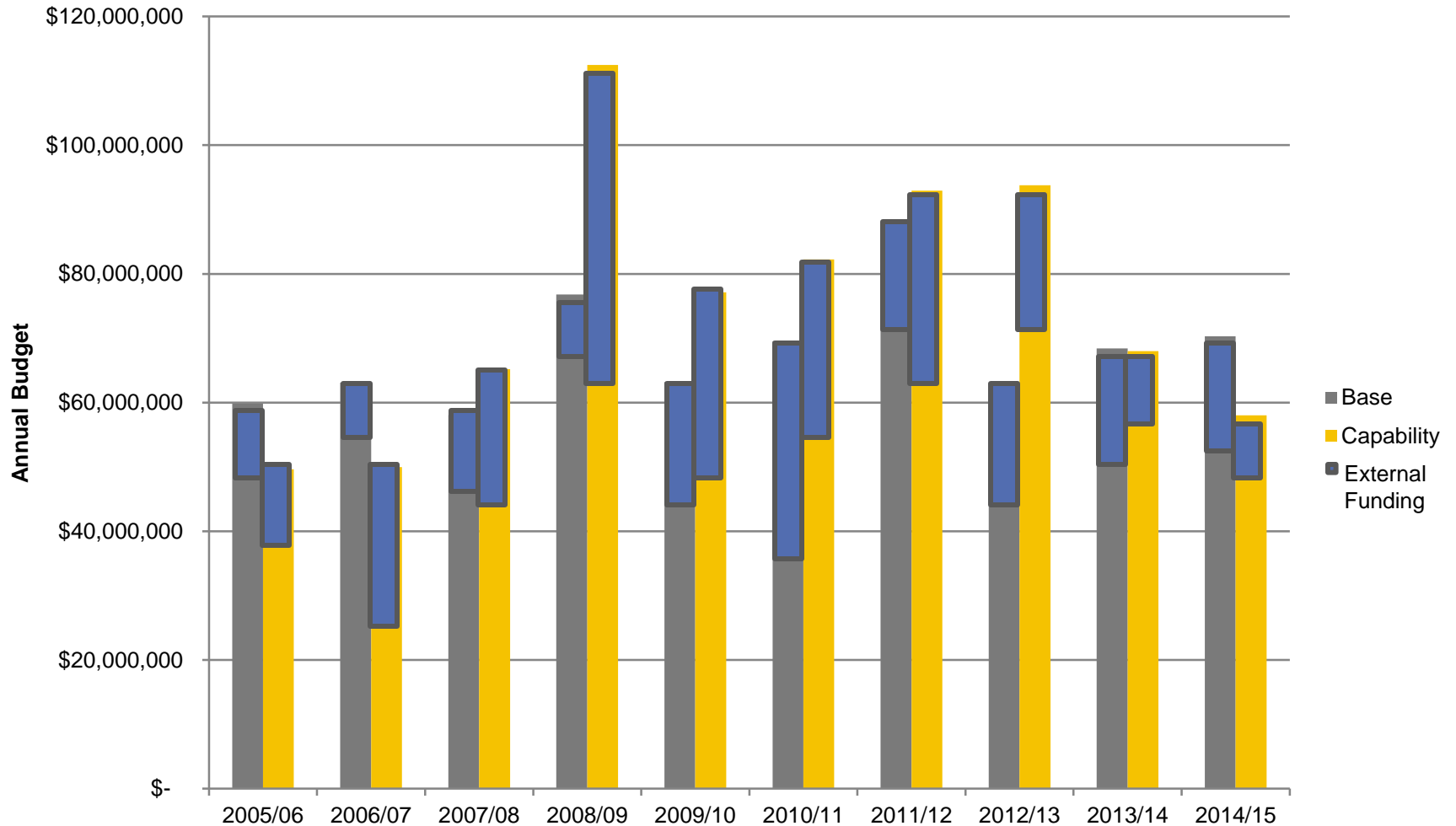
Annual Replacement Reserve: \$ 97M

\$ 186M

(estimated based on historical cost of assets as at Mar. 31/10)

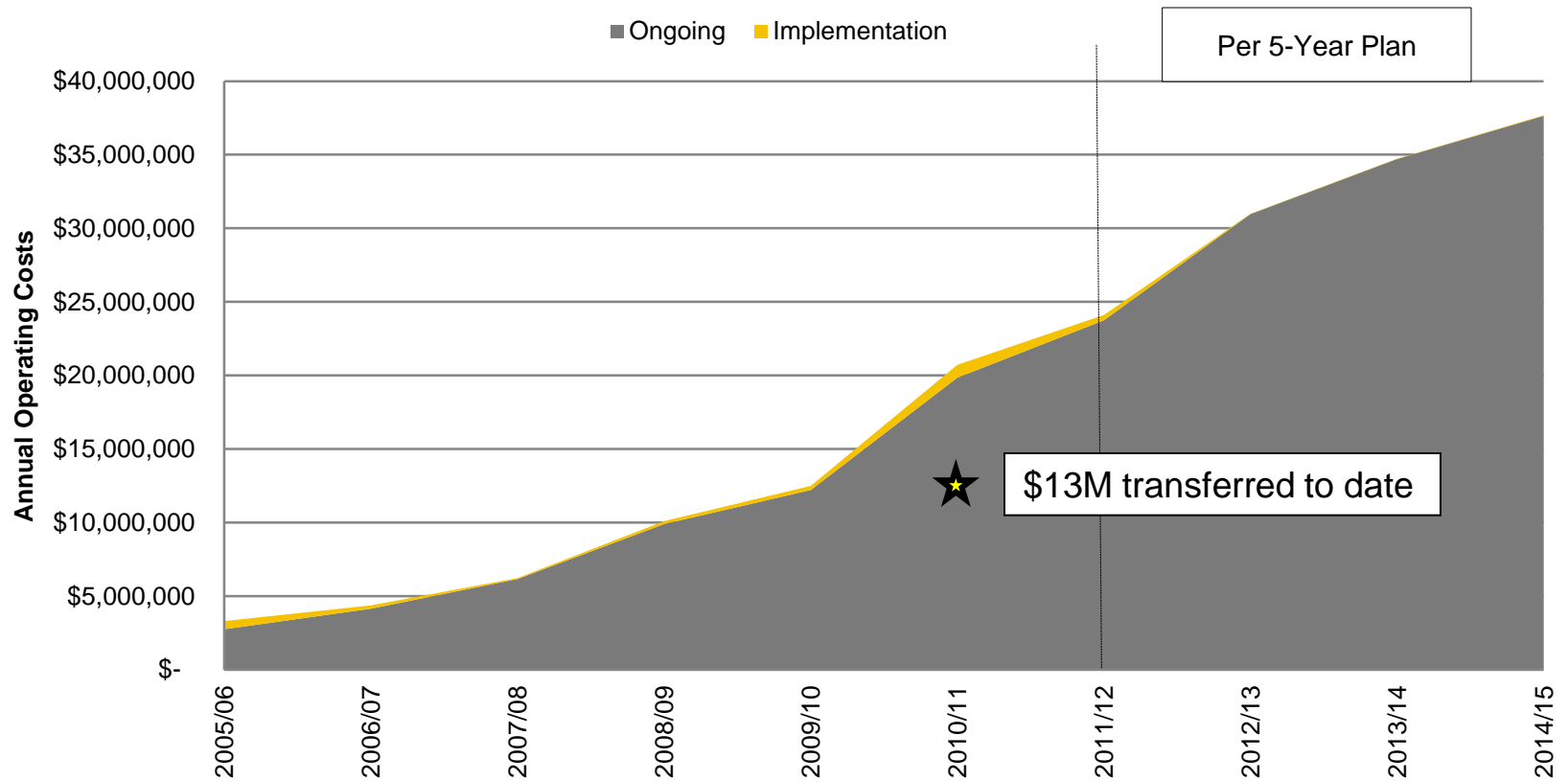
ASSET OUTLOOK

Base vs. Capability

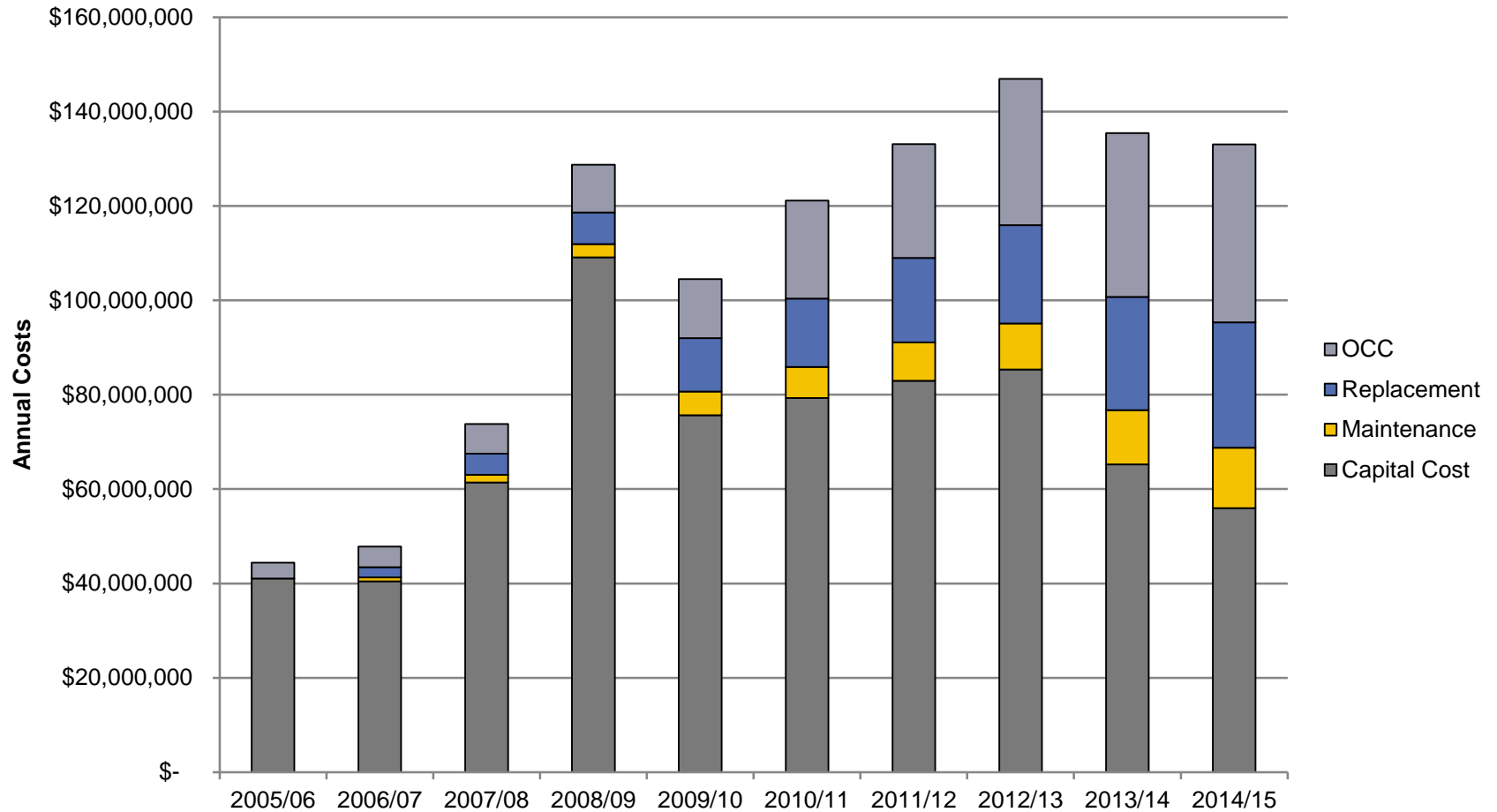


ASSET OUTLOOK

Budgeted Net Operating Costs of Capital for Capability Projects



ASSET OUTLOOK



ASSET OUTLOOK



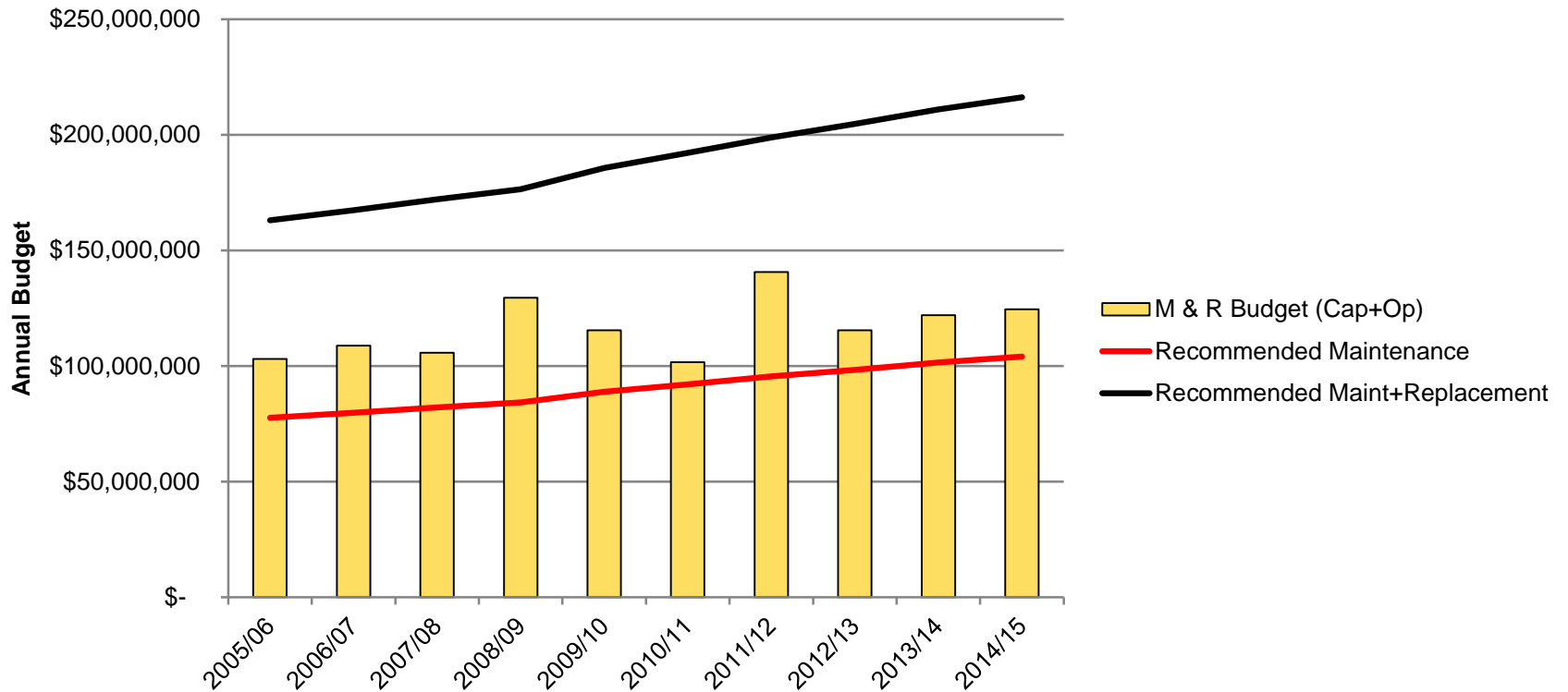
Does the opportunity align with HRM's priorities?

What is the immediate trade-off?

Is the investment sustainable over the long-term?

ASSET OUTLOOK

Maintenance & Replacement Budget Gap



ASSET OUTLOOK

- **Operating costs of Capability projects:**
 - Are cumulative
 - Expected to reach \$37M by 2014/15
- **Balance between Base & Capability**
- **Evaluate Capability projects on full life-cycle costs**
- **Capital and operating planning must be long-term (20+ years)**
- **Determine which services are important & which assets are required to support them.**

UPDATE FOR 2010/11

- Small surplus from 2009/10, after reserve top ups
- Balanced budget for 2010/11 with some service and expenditure reductions, and revenue & rate increases; plus direction to look for an additional \$13 m for the Fall
- Why \$13 m? Based on the projected requirement last spring
- As of end of 2nd Q, small surplus projected of \$727,000. Main risks for the balance of the year are Winter Works, and Canada Games Operating VIK.

PLANNING FOR 2011/12 AND BEYOND

Key Assumptions for 2011/12

- Existing residential (Assessment Cap at CPI 2%)
- Revenue from new development +0.5%
- Commercial tax rev + 2%
- Existing tax structure (unless otherwise directed)
- No new services without new money
- Vacancy management will continue with \$3.5 M assumed saving
- Expenditure growth to be within CPI - MPI
- Sticking to approved debt strategy

COST OF SERVICES

- All programs & services are approved by Council
- Delivery costs increase each year
 - Contractual
 - Collective agreements
 - Supplier contracts
 - Goods and service costs
 - Changes in legislation
- Commodity & utility costs – energy, diesel, gasoline, asphalt
- Some costs climate dependent (Winter Works)

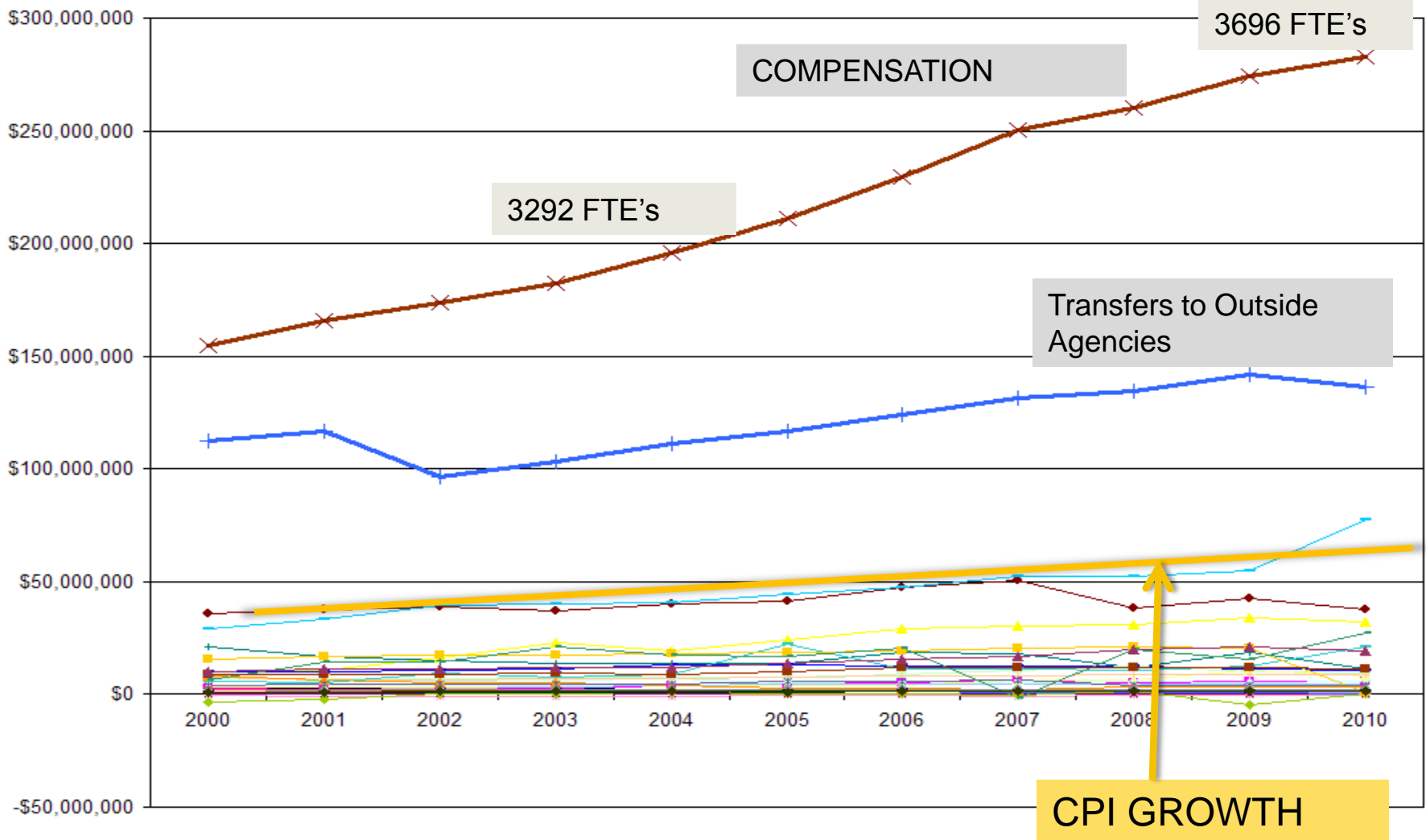
COST OF SERVICES

- Generally costs rise in line with contractual & legal obligations greater than CPI
- No inflation or growth component allowed
- Service enhancements for Transit, Fire & Police have risen dramatically over the last 10 years

- **There is an on-going mismatch between expenditure growth and revenue growth.**
- **Some might call this a structural deficit, but it is within our control to fix this.**

COST OF SERVICES

Ten Year Budget Expenditure Trend lines

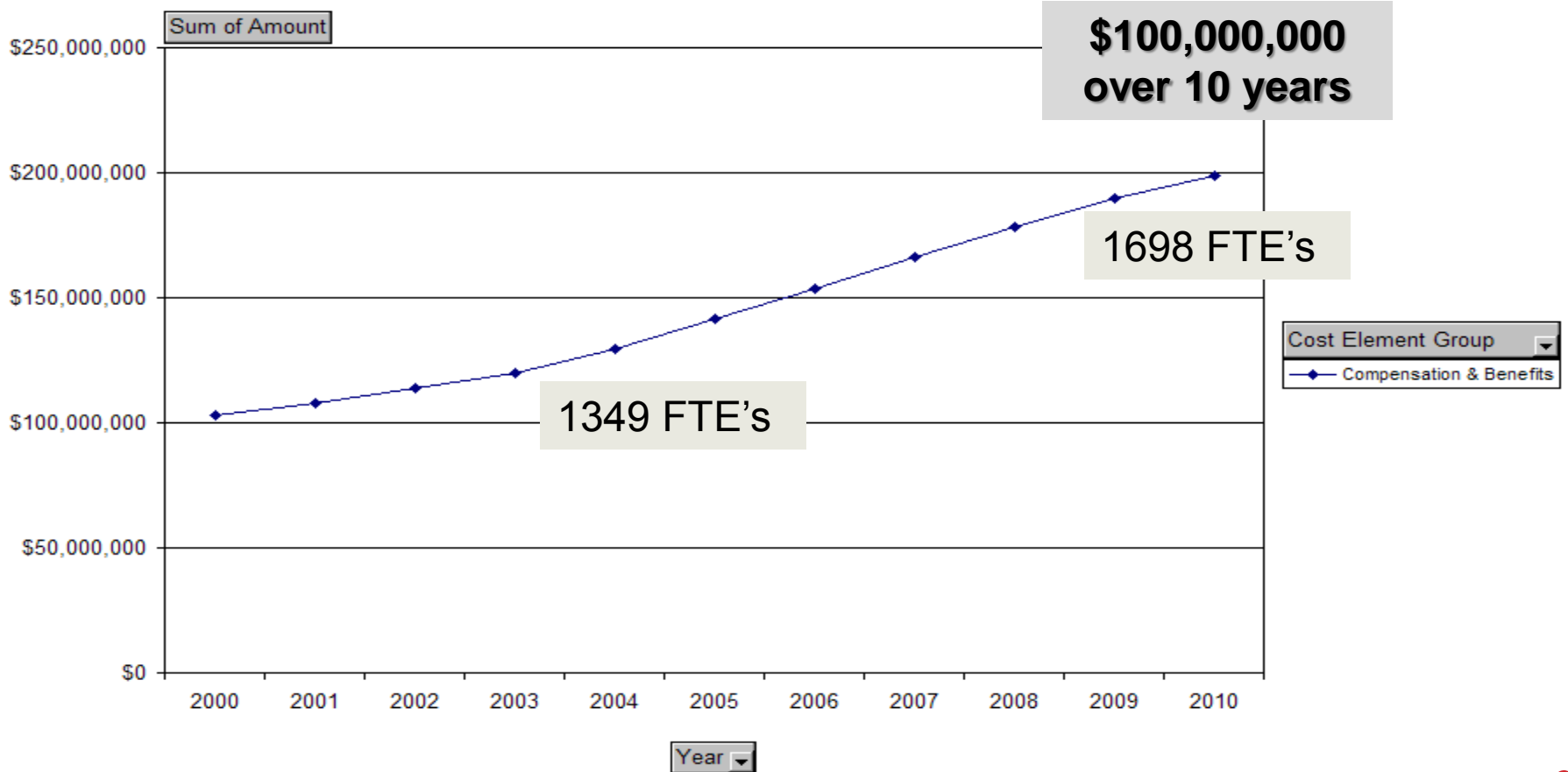


COST OF SERVICES

Ten Year Budget Expenditure Trend line Compensation for Transit, Police and Fire (New Services)

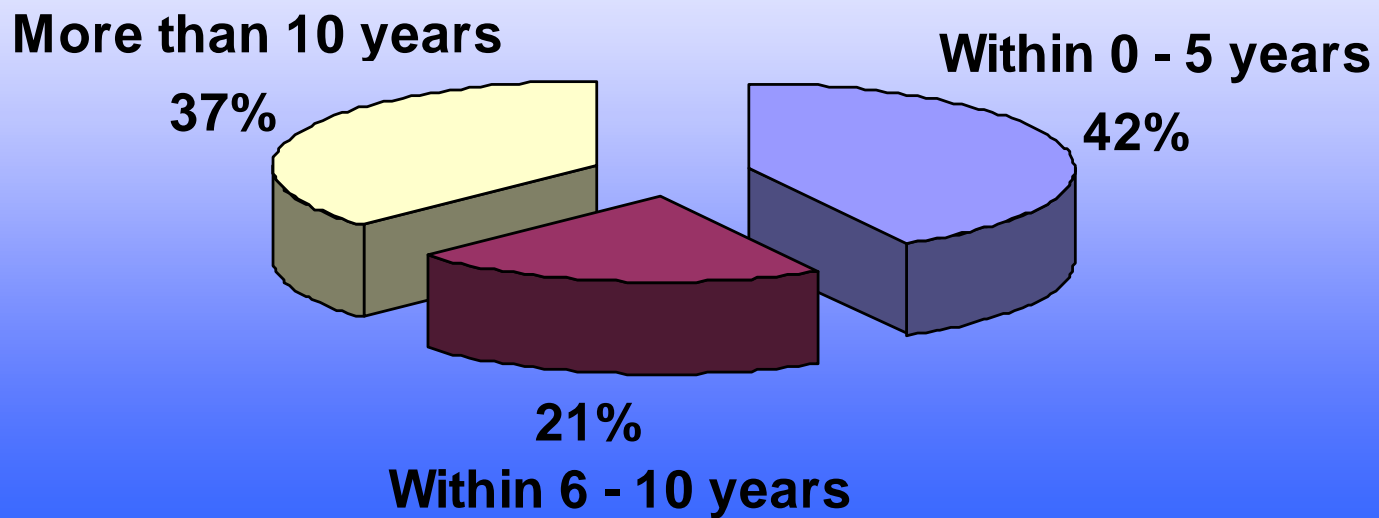
Business Unit (All) Cost Center Group (All) Type Expense

Compensation & Benefits



THE HRM WORKFORCE: RETIREMENT

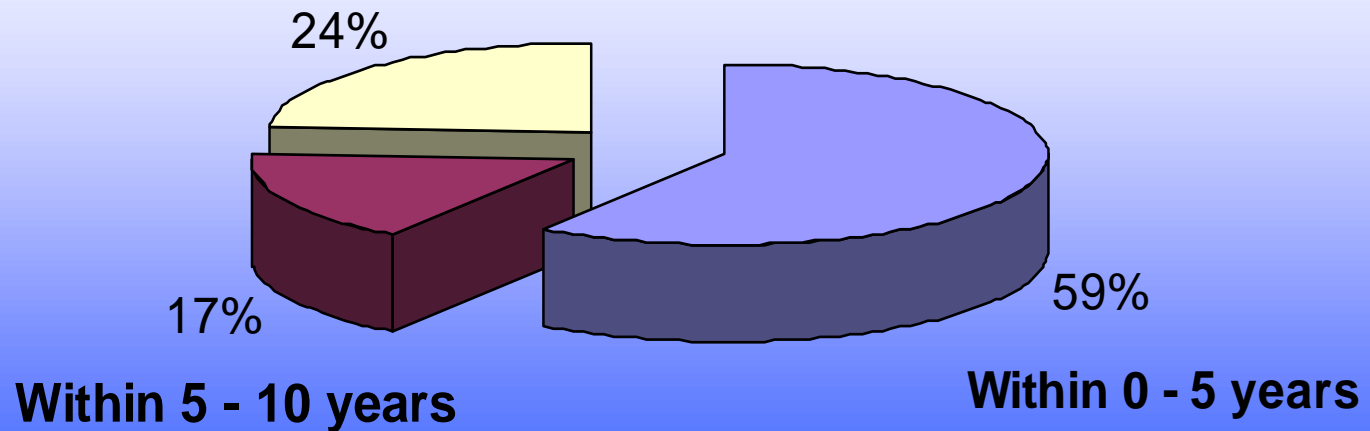
HRM Employees Eligible to Retire



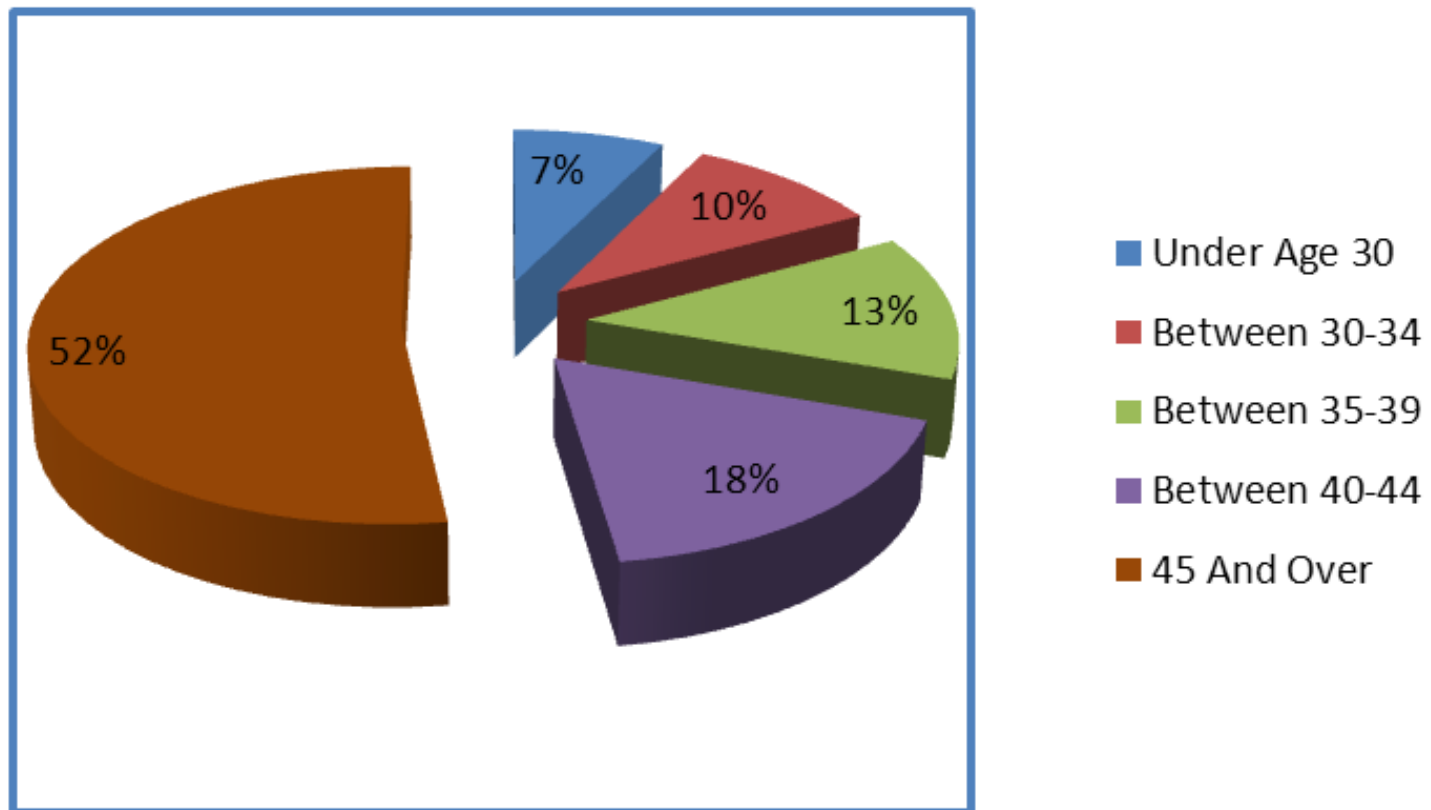
THE HRM WORKFORCE: RETIREMENT

HRM Supervisors, Managers and Directors: Eligible to Retire

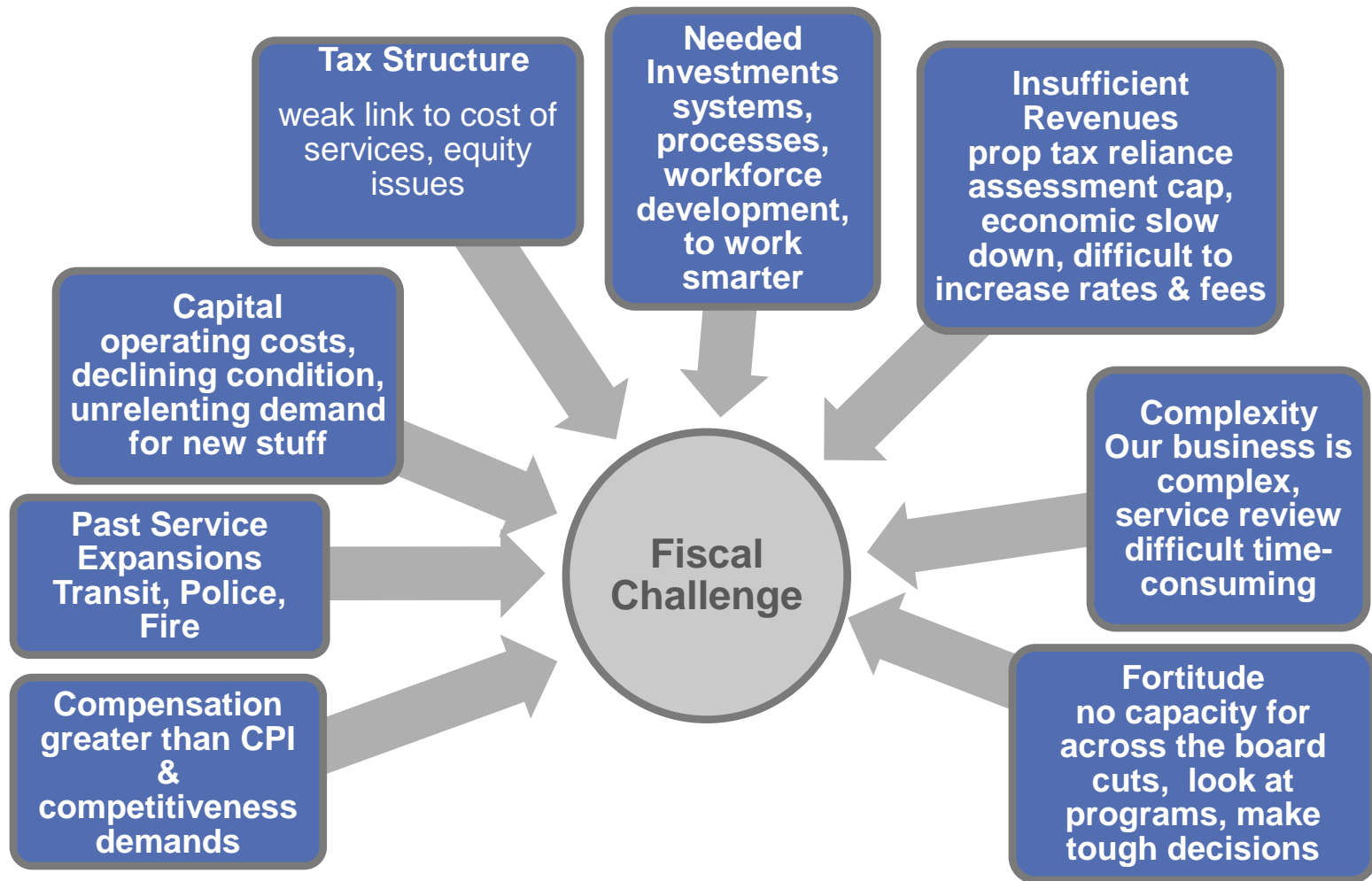
More than 10 years



HRM EMPLOYEE DEMOGRAPHICS BY AGE



WHY IS THERE A PROBLEM?



WE HAVE HIT THE WALL ...



Cut services or increase taxes

2011/12 CURRENT PROJECTION

- Revenues will increase by 2% or \$12 million
- Expenditures will increase by 4% or \$26 million

Current projection - imbalance of \$13.9 million (2011-12)

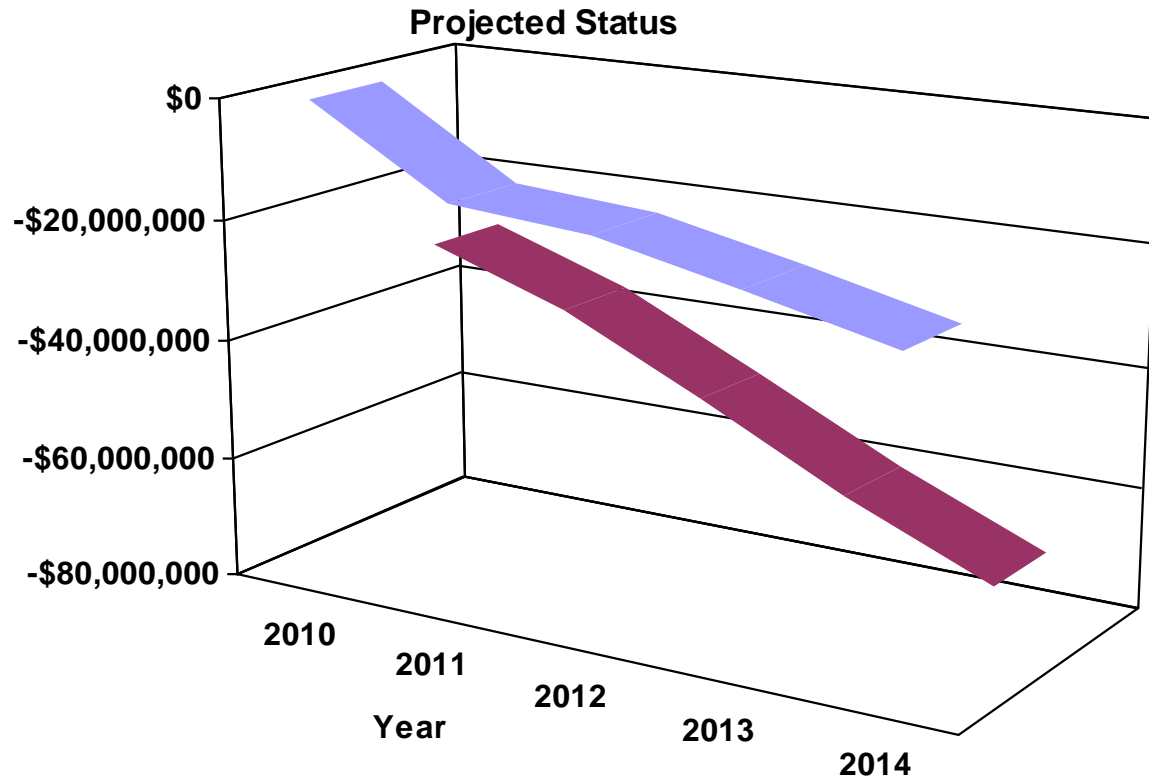
Projection for 2012-13 – imbalance of \$15.6 million

WHAT DOES SUSTAINABLE LOOK LIKE?

- \$595 M Operating Budget this year
- If we aim to restrict budget growth to CPI for next year, this would mean the budget can only grow by \$12 M....
Does this allow for service growth?
- Key questions:
 - What does competitive tax burden look like?
 - What is reasonable expenditure growth?



4 YEAR OUTLOOK



	2010	2011	2012	2013	2014
■ Current Projection	\$0.00	-\$13,921,750.66	-\$15,621,349.44	-\$20,768,631.17	-\$26,380,762.45
■ Initial Gap	-\$29,754,800.00	-\$37,989,654.59	-\$49,233,954.98	-\$61,159,961.36	-\$71,473,700.68

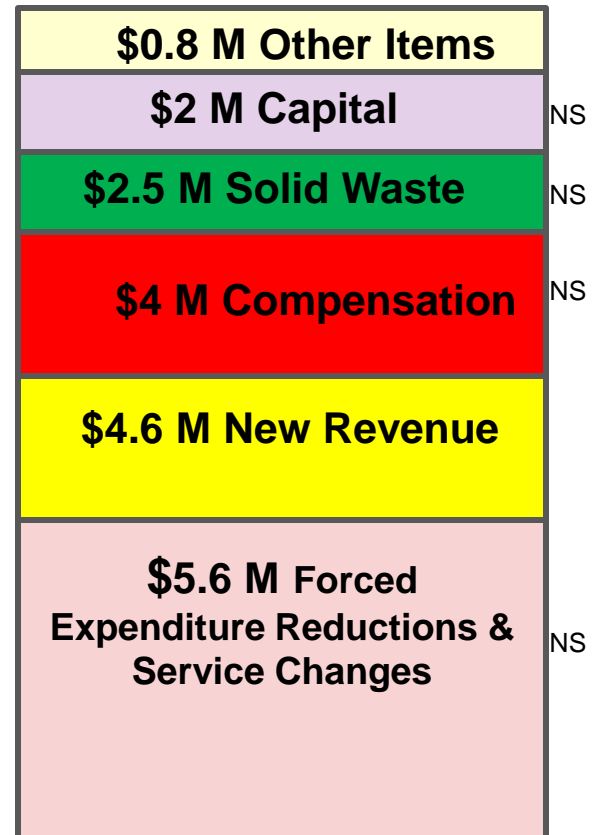
IMPACT OF 2010/11 APPROVED BUDGET

*** Of the \$22.5 M adjustments to our projected 10/11 expenditure requirements, we estimate \$11.4 is sustainable**

\$3 M

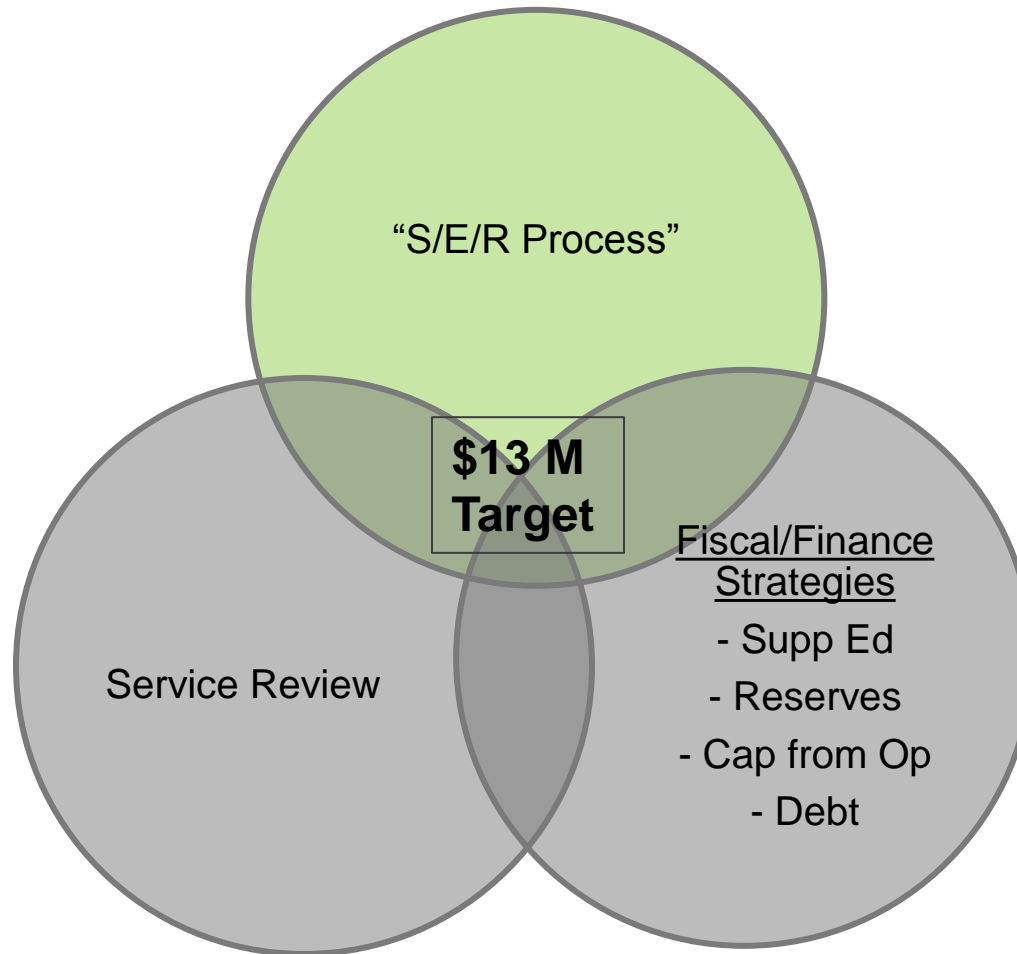


\$19.5 M



NS – Not sustainable

HOW DOES IT ALL FIT??



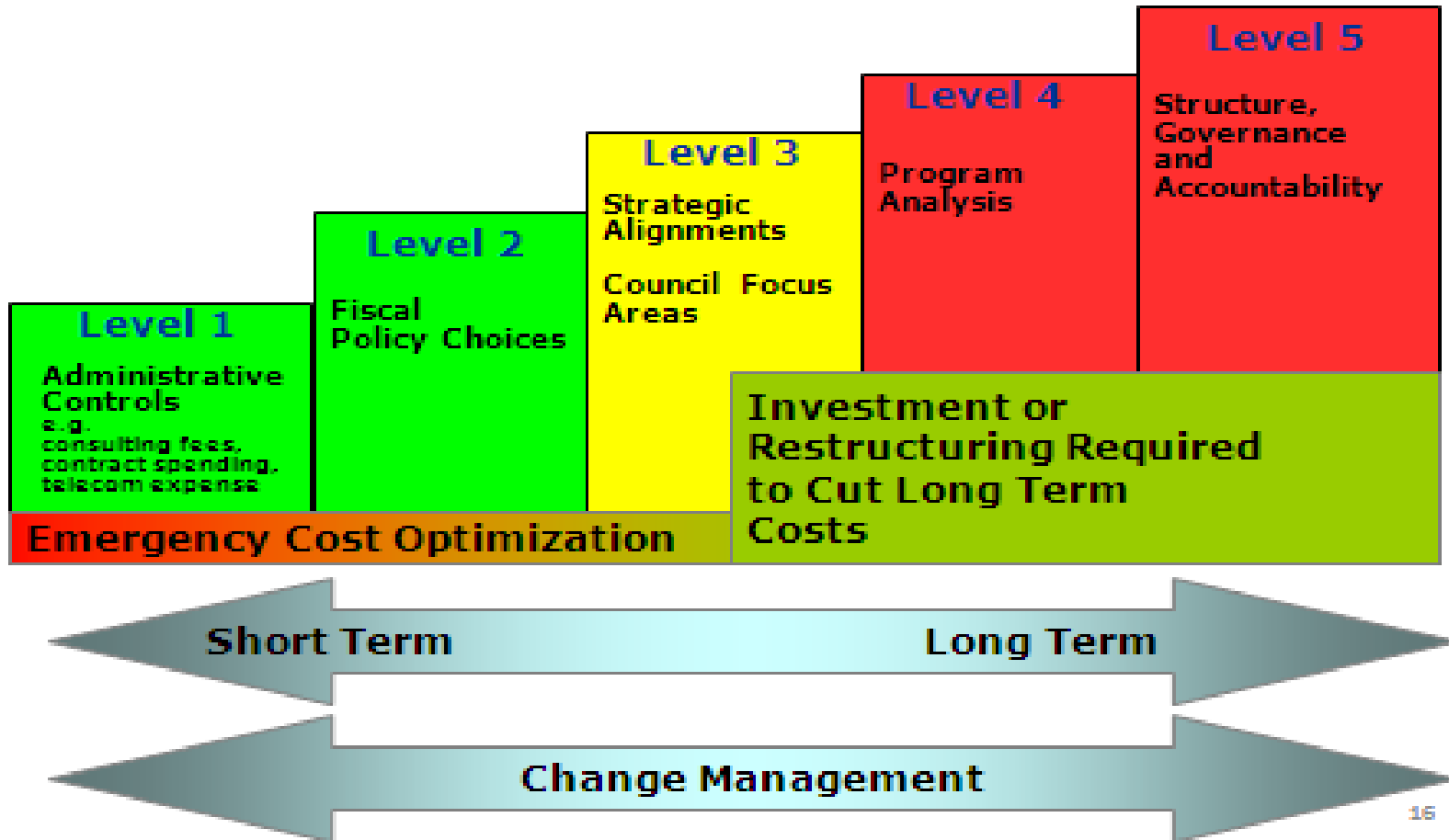
STATUS OF \$13 M

- It is possible to find \$13 M to address the fall target
 - \$3 M from efficiencies and service reductions
 - \$3.5 M continuation of vacancy management. The program is generating savings, but is having impacts.
- \$6.5 M Capital from Operating funding reduction
 - budget only what can actually be spent
 - there is significant unspent/uncommitted capital (approved projects)
 - We have been budgeting more than we can actually spend & deliver each year... this is not a good news story

SER – POTENTIAL SAVINGS

Almost 300 ideas from staff and Council on how to save money

SER Framework



PROCESS TO LOOK FOR SAVINGS

Ideas from 2010-11 Budget Process:

1. **Council ideas list** - all assessed. Some ideas were acted upon or referred to Service Review for assessment.

(Details in Information Report)

2. **Employees and Public Ideas list**

- All assessed
- Some were taken last year, some are now included in “Realistic Opportunities” list
- Some are not recommended

(Details in Information Report)

PROCESS TO LOOK FOR SAVINGS

- **Challenges**
 - Over-riding desire to serve the public
 - Complexity
 - Cost Accounting
 - Overestimated business unit capacity
 - Lack of operational-level service standards and performance metrics
- **Only service reductions will yield significant dollars**

REALISTIC OPPORTUNITIES 11/12

- Public Art
- Various Cost recovery opportunities
- Development related fees. How much more should be recovered?
- Special Event advertising revenues
- Fleet Rationalization (Service Review)
- Youth Live
- Legal & Topographic Survey services to internal BU's – Centralize Service delivery
- Landscaping service standard

REALISTIC OPPORTUNITIES 11/12

- Urban Search And Rescue
- On Street Parking
- Revisit Reserve Funding Business Case for Energy Efficiency Projects
 - Each Report should specify the expiry of savings investment in reserve.
 - Reduce Capital Budget for Energy Projects... less funding required as we are funding them through energy savings in a reserve

REALISTIC OPPORTUNITIES 11/12

- False Alarm fees – Rationalize, increase and go with one rate
- Sport Field Maintenance (including All Weather turf) – user fees
- Motor Vehicle Inspection - Revisit service standard for light vehicles– is annual inspection required? Legislated every 2 years now. (20/80 – Preventative/Reactive)

REALISTIC OPPORTUNITIES 11/12

- Mobile Mechanic Services - Performance metrics? Utilization...how active is the service?
- Telephones/Mobile Devices - Right tools and services by function, and contract negotiation
- Grants
- Disposition of Surplus Buildings
 - Set target through budget process
 - Continue to proactively consolidate HRM Offices where savings are identified
 - Disposal Strategy, operating costs (Northcliffe and Bloomfield)

SERVICE REVIEW STATUS UPDATE

2009	2010
Cemetery Services	Recreation Services
Visitor Info Centres	Light Fleet
Publications	Winter Works
Water Quality Sampling	Library

2009 SERVICE REVIEW RESULTS

Service	2010 Savings	2011 Savings (projected)
Cemetery Services	\$200,000	\$300,000
Visitor Info Centres	\$266,000	\$327,000
Publications	\$75,000	n/a
Water Quality Sampling	No savings	n/a
Total Savings	\$ 541,000	\$627,000

SERVICE REVIEW STATUS UPDATE

2010 COUNCIL REQUESTS

Service	Status
Recreation	On track to deliver report in June 2011
Fleet	- Nearly Complete - Policy Changes
Winter Works	75% complete
Library	To commence in November

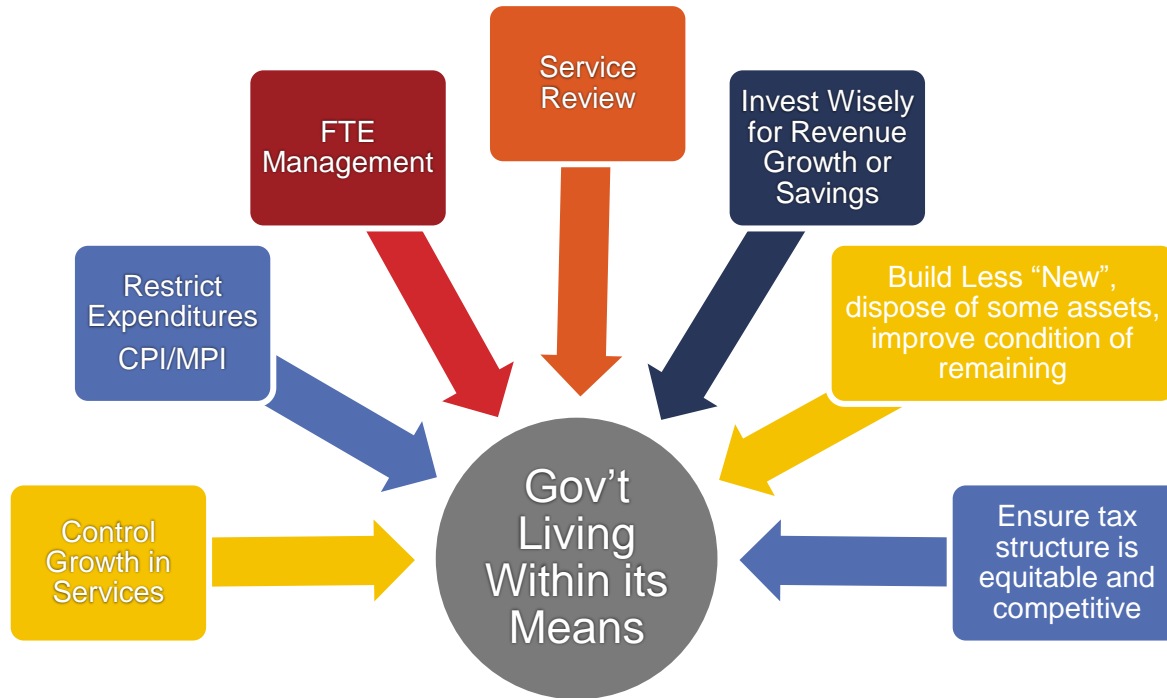
POSITIVE DEVELOPMENTS & OPPORTUNITIES

- We currently project a small surplus for 2010/11, but this is prior to going through the winter months.
- Winter Works risk is less, due to funds added in 2010/11 budget
- Vacancy management is working
- Transit area rates mitigate risk and support future expansion
- Area rate for mandatory Provincial contributions
- Supplementary Education funding agreement renewal
- Could look at area rating other services such as Public Safety (HRP & RCMP), or Solid Waste.
- Can implement programs to mitigate negative impacts of the assessment cap

Risks

- Provincial decisions
- Pension
- People related risks
- Winter Works
- Police Overtime
- Ability to maintain services when budget is constrained
- Asset condition continues to decline
- Sufficiency of reserves (solid waste, winter works, fuel)
- Staff and Council find it hard to say “no”.... We try to serve and please residents
- Transit – Any deficit carries over to next year’s area rates
- Need to invest to:
 - gain operational savings, and
 - grow the economy and therefore the tax base
- Canada Games Operating VIK, and Deficit risk. Well managed, minimal risk.

SOLUTIONS



Solutions

- Don't enhance services without increasing rates to pay for them or eliminating other services
- We can balance 2011-12. Consider two year mandate... need to approve service changes to reap savings in 2012-13. Strong mandate and resolve from Council will help administration achieve reductions
- Projects and initiatives like the Capital Ideas, and Economic Strategy renewal are key to improving our position in future.



SUMMARY

- **We DO have a challenge...**
- **Expenditures grow at a rate faster than revenues**
- **We have solutions to consider for 2011/12**
- **We did about \$15 M in reductions last year**
- **We did not allow inflationary growth in the budget for several years**

SUMMARY

- **Across the board cuts are no longer possible**
- **We have developed a solution for 2011/12**
- **Service reviews**
- **Restrict future expenditure growth**
- **Growing revenues and reducing services is the path for the future**

Planning Assumptions 2011-12

- Balance 2011/12 budget based on assumptions presented. Debate when tabled.
- Next year's expenditure growth must fall between CPI and MPI
- Reduce services by a minimum of \$3 M, adjust capital from operating to budget ONLY what we can spend next year. Alternative: increase the tax rate
- Try to hold the general rate flat. Worst case scenario would be allowance for CPI growth
- Engage Finance & Audit Standing Committee to enhance Council's involvement. Check in with them twice before tabling

Planning Assumptions 2012-13

- Reduce services by up to \$10 M to address projected revenue/expenditure mismatch. Alternative: plan to increase the tax rate
- New services must be rated, or funded through additional reduction in other services

2010/11 BUDGET & BUSINESS PLAN PROGRAM

Date	Milestone
November 23 rd (today)	Budget Direction & Endorsement of the Program
December 13 th & 14 th	Strategic Planning
Dec or early Jan.	Commercial Tax
January	Supplementary Education Funding
February (1 st week)	Check in with Finance & Audit Standing Committee
March (mid)	Check in with Finance & Audit Standing Committee
April 5 th	Table Corporate Plan and Budget
April 12 th	Open House Sessions
April 19 th	Budget Debate

DECEMBER 13TH – 14TH STRATEGIC PLANNING

Desired Outcomes:

- **Endorsement of 11/12 Community Outcome Plans**
- **Re-evaluation/Confirmation of Council Focus Areas**
- **Service Review Priorities**

DIRECTION SOUGHT

- 1. Engage the Finance & Audit Standing Committee in preparation of returning to Regional Council with a Budget for 2011/12 based on the planning assumptions on the previous slides.**
- 2. Develop an aggressive 2012/13 Service Reduction program based on Council's priorities and the planning assumptions on the previous slides.**
- 3. Endorse the Budget & Business Plan Program Schedule as presented.**
- 4. Endorse the Dec 13th – 14th Strategic Planning Session Outcomes as presented.**

QUESTIONS???

