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

COMMUNITY

Community Expectations:
6 Community Outcome Areas
(Citizen Survey)

Vision 2020
Regional Plan
- functional plans
- community visioning
Economic Strategy

Council Focus Areas

COMMUNITY PLAN
Vision

COMMUNITY PLAN
Strategy

CORPORATE PLAN
Strategy

CFA Progress Reports
Corporate Performance Reports
Economic Scorecard

CRM Reports (Service Stds)
Various Service Indicators
Budget Projections
BP Goals & Objectives Updates

Governance

Administrative (EMT) Priorities
-Fiscal Responsibility
-Employer of Choice
-Excellence in Service Delivery
Community Outcome Plans
Enterprise Risk Plan

Service Delivery
-Service Catalogue
-Service Review

Citizen Satisfaction
(Citizen Survey)

CITIZEN

Management

Leading Financial Stewardship
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

### Overview

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Book Value @ Mar.31/10</th>
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<tbody>
<tr>
<td>Buildings</td>
<td>$252.4M</td>
</tr>
<tr>
<td>Dams</td>
<td>$0.5M</td>
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<tr>
<td>Ferries</td>
<td>$18.5M</td>
</tr>
<tr>
<td>Land</td>
<td>$259.7M</td>
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<tr>
<td>Land Improvements</td>
<td>$181.2M</td>
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<tr>
<td>Leasehold Improvements</td>
<td>$3.0M</td>
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<tr>
<td>Machinery &amp; Equipment</td>
<td>$57.1M</td>
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<tr>
<td>Road Infrastructure</td>
<td>$1566.0M</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$142.3M</td>
</tr>
<tr>
<td>Assets Under Construction</td>
<td>$263.3M</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,744.0M</strong></td>
</tr>
</tbody>
</table>

Leading Financial Stewardship
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)
Budgeted Net Operating Costs of Capital for Capability Projects

- Ongoing
- Implementation

Leading Financial Stewardship
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

Annual Budget

- M & R Budget (Cap+Op)
- Recommended Maintenance
- Recommended Maint+Replacement

Leading Financial Stewardship
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.

Leading Financial Stewardship
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.

Leading Financial Stewardship
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

- COMPENSATION: 3696 FTE's
- Transfers to Outside Agencies: 3292 FTE's
- CPI GROWTH

Leading Financial Stewardship
COST OF SERVICES

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

$100,000,000 over 10 years

1698 FTE’s

1349 FTE’s
THE HRM WORKFORCE: RETIREMENT

HRM Employees Eligible to Retire

- More than 10 years: 37%
- Within 0 - 5 years: 42%
- Within 6 - 10 years: 21%
THE HRM WORKFORCE: RETIREMENT

HRM Supervisors, Managers and Directors: Eligible to Retire

- More than 10 years: 24%
- Within 5 - 10 years: 17%
- Within 0 - 5 years: 59%
HRM EMPLOYEE DEMOGRAPHICS BY AGE

- 52% of employees are under age 30
- 18% of employees are between 30-34
- 13% of employees are between 35-39
- 10% of employees are between 40-44
- 7% of employees are 45 and over
WHY IS THERE A PROBLEM?

Fiscal Challenge

- Tax Structure: weak link to cost of services, equity issues
- Needed Investments: systems, processes, workforce development, to work smarter
- Insufficient Revenues: prop tax reliance, assessment cap, economic slow down, difficult to increase rates & fees
- Complexity: Our business is complex, service review difficult time-consuming
- Fortitude: no capacity for across the board cuts, look at programs, make tough decisions
- Past Service Expansions: Transit, Police, Fire
- Capital: operating costs, declining condition, unrelenting demand for new stuff
- Compensation: greater than CPI & competitiveness demands

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 $22 million
- Expenditures will increase by 4% or $36 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$0.00</td>
</tr>
<tr>
<td>2011</td>
<td>-$13,921,750.66</td>
</tr>
<tr>
<td>2012</td>
<td>-$15,621,349.44</td>
</tr>
<tr>
<td>2013</td>
<td>-$20,768,631.17</td>
</tr>
<tr>
<td>2014</td>
<td>-$26,380,762.45</td>
</tr>
</tbody>
</table>

Leading Financial Stewardship
**IMPACT OF 2010/11 APPROVED BUDGET**

- $19.5 M
- $5.6 M Forced Expenditure Reductions & Service Changes
- $2 M Capital
- $2.5 M Solid Waste
- $4 M Compensation
- $4.6 M New Revenue
- $0.8 M Other Items
- $3 M
- $1M Reserve Contributions
- $1 M Capital
- $1 M Winter Works
- $1 M Reserve
- $1 M Capital
- $1 M Winter Works

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

NS – Not sustainable

Leading Financial Stewardship
HOW DOES IT ALL FIT??

- "S/E/R Process"
- Fiscal/Finance Strategies
  - Supp Ed
  - Reserves
  - Cap from Op
  - Debt
- $13 M Target
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
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

<table>
<thead>
<tr>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cemetery Services</td>
<td>Recreation Services</td>
</tr>
<tr>
<td>Visitor Info Centres</td>
<td>Light Fleet</td>
</tr>
<tr>
<td>Publications</td>
<td>Winter Works</td>
</tr>
<tr>
<td>Water Quality Sampling</td>
<td>Library</td>
</tr>
</tbody>
</table>
## 2009 SERVICE REVIEW RESULTS

<table>
<thead>
<tr>
<th>Service</th>
<th>2010 Savings</th>
<th>2011 Savings (projected)</th>
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</thead>
<tbody>
<tr>
<td>Cemetery Services</td>
<td>$200,000</td>
<td>$300,000</td>
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<tr>
<td>Visitor Info Centres</td>
<td>$266,000</td>
<td>$327,000</td>
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<tr>
<td>Publications</td>
<td>$75,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Water Quality Sampling</td>
<td>No savings</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total Savings</strong></td>
<td><strong>$ 541,000</strong></td>
<td><strong>$627,000</strong></td>
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</table>
## SERVICE REVIEW STATUS UPDATE

### 2010 COUNCIL REQUESTS

<table>
<thead>
<tr>
<th>Service</th>
<th>Status</th>
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</thead>
<tbody>
<tr>
<td>Recreation</td>
<td>On track to deliver report in June 2011</td>
</tr>
<tr>
<td>Fleet</td>
<td>- Nearly Complete</td>
</tr>
<tr>
<td></td>
<td>- Policy Changes</td>
</tr>
<tr>
<td>Winter Works</td>
<td>75% complete</td>
</tr>
<tr>
<td>Library</td>
<td>To commence in November</td>
</tr>
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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

Gov’t Living Within its Means

- FTE Management
- Service Review
- Invest Wisely for Revenue Growth or Savings
- Restrict Expenditures CPI/MPI
- Build Less “New”, dispose of some assets, improve condition of remaining
- Control Growth in Services
- Ensure tax structure is equitable and competitive

Invest Wisely for Revenue Growth or Savings

Build Less “New”, dispose of some assets, improve condition of remaining
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

## Milestones

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