

MEMORANDUM

To: Mark Roberts, Chief Administrative Officer (CAO)
From: Laura Barroetavena, Director of Financial Services
Date: December 9, 2024
Subject: 2025 Business Planning Reductions

The purpose of this memo is to provide additional information regarding the 2025 Business Planning reductions in response to a request made at the Regular Council Meeting held on December 3, 2024, supported by the CAO commitment to provide the requested information at the December 9, 2024, Public Council Meeting.

Business Planning Guidelines

As per the 2025 Business Planning Guidelines presented on May 7, 2024, at the Regular Council Meeting, City Departments were asked to prepare Business Plans that maintain service levels and minimize impact to the tax payer.

The budget development process starts with a zero-based budget approach that requires staff to review and analyze their budget line-by-line to arrive at the first iteration of the proposed budget, eventually landing at the final version that is presented to Council during Business Planning. This includes: 1) ensuring existing contractual obligations and regulations are complied with, 2) following best practice to ensure the City remains competitive and stays up-to-date with current standards and/or benchmarks within the sector, and 3) reviewing and analyzing historical trends and current data to support the proposed budget.

1) Compliance with Contractual Obligations or Regulations

The City must comply with external regulations or contractual obligations as required by the regulatory agency as well as the contracted agency or service provider. This represents the most restrictive aspect of the budget review process since the City must comply with legislated regulation or ratified contractual agreements.

Regulatory agencies the City must comply with would include provincial regulatory organizations such as WorkSafeBC, Insurance Corporation of British Columbia (ICBC), other areas regulated by the province with respect to public health, protection of the natural environment, wildlife and prohibition of soil deposit and removal. Additional requirements that impact the City's activities and resource allocation also include recent legislation related to the BC Accessibility Act, Housing Affordability initiatives, and Local Government Data Entry reporting requirements (i.e. Tangible Capital Assets, BC Asset Management Framework).

Contracted agencies impacting City budget would mainly be represented by labour unions such as the Canadian Union of Public Employees (CUPE), International Association of Fire Fighters (IAFF), and the National Police Federation (NFP).

Lastly, contracted service providers represent any contractual agreement between the City and a Service Provider outlining the agreed upon cost of the good or service and duration of the agreement, which binds the parties to the agreed terms of the contract for the duration of the contract.

2) Best Practice Considerations

The City endeavours to follow best practice through the implementation of various policies and reviews across all service areas that promote a healthy work environment, competitive opportunities, partnerships, sustainability, etc.

Examples of policies and reviews that support best practice at the City, include:

- Council policy C092 Living Wage policy
- Council policy C012 Purchasing and Procurement policy
- Administrative policy A036 Corporate Asset Management policy
- Asset Management Plan Update Review
- Various Asset Condition Assessment Reviews
- Exempt Compensation Review
- City Department Service Reviews
- Facility rental fees, Recreation Program Fees, and other Service and Administrative Fees Reviews

The outcome of the reviews as well as updates to the policies contribute to the proposed budget developed by departments, where acceptable ranges and benchmarks are identified and incorporated into the budget, with the goal of maintaining service levels and minimizing impact to the tax payer while still adhering to best practice. The reviews also provide the opportunity for departments to adapt to changing priorities as well as reallocation of resources, which is reflected and communicated during the departments' business plan presentations.

Metro Vancouver and the Fraser Valley Regional Library are examples of service partners that contribute to the services enjoyed by our community, which introduce uncontrollable costs that the City must recover in order to pay for those services.

3) Historical Trends and Current Data Review and Analysis

A review and analysis of historical trends and current data is performed by staff as the budget is being developed. The goal is to determine the reasonableness of the proposed budget based on market trends in terms of cost of goods and services, product availability, new technology, human capital resources, supply chain challenges, etc.

Existing and expiring contracts are reviewed to determine if goods and services provided continue to be needed at the same rate, more or less, or if there are efficiencies that can be gained by providing the service in-house, or looking for economies of scale opportunities where possible.

On the revenue side, staff review and analyze the various revenue sources, which includes looking at recreation program demand and attendance, City permits, and licenses, service fee changes, and return on investment, etc.

By reviewing and analyzing the financial data as well as all other factors impacting City Services, in staff's opinion, the proposed budget is a reasonable budget that is sustainable and maintains service levels with the goal of minimizing the impact to the tax payer.

In summary, the business planning process requires that due diligence be applied through the multiple reviews of both revenues and expenses that ensure additional realistic and sustainable revenue targets and cost savings are incorporated to minimize the impact to the tax payer. The proposed budget presented during Business Planning presentations held in November is the product of that diligent review.

Lastly, it is important to note that each budget iteration can introduce higher uncertainty and therefore higher risk in achieving the proposed budget targets. Once budget adjustments become significantly unsubstantiated, the end result can lead to compromised service levels or unsustainable and unrealistic budget targets that produce higher tax increases in future years.

2025 Business Planning Reductions

As communicated on Nov 25 2024, during Business Planning presentations, a reduction of approximately \$900,000 was identified by staff to arrive the proposed budget. The table below outlines the contributing budget lines that resulted in the identified reductions.

Item #	2025 Budget Activity	Budget Adjustment (\$)*
	Revenues	
(1)	Investment Interest Revenue	\$150,000
	Recreation Programs	19,000
	Business Licenses	15,000
	Facility Rentals	\$10,000
		\$194,000
	Expenses	
(2)	Employee Benefits	\$300,000
(3)	Tools and Equipment	155,000
(4)	Backfill and Vacancy Costs	230,000
	Service Contracts	20,000
	Other Expenses	1,000
		\$706,000
	Total Savings	\$900,000

*Maintains existing service levels and reflects reasonable budget adjustments based on the best available information.

Analysis

The in-depth description of the analysis completed on the major budget adjustments is listed below with the corresponding noted Item #'s referenced above:

1. ***Investment Interest Revenue*** is considered volatile since it is highly sensitive to interest rates and other market factors depending on the investment instruments held. In the last iteration of the budget review, staff cautiously added an additional **\$150,000** target in investment revenue based on historical and recent interest earnings, which was considered acceptable. The adjusted revenue budget for this line item is considered reasonable and likely at its limit to avoid over-reliability on this revenue, which could negatively impact future property taxes calculations if revenue target becomes unrealistic or unsustainable.
2. ***Employee Benefit Expense***. The first iteration of the budget produced an increase to the budgeted employee benefit cost as a result of what was being observed in 2024. The increase was so significant that compared to previous year-over-year budgeted cost increases, it warranted further review of the data and assumptions. Staff completed a deep dive to breakdown as best as possible each of the costs associated to the multiple benefits included in the budget line (i.e. municipal pension plan, extended benefits, dental plan, employer's contribution to statutory reductions, etc.). This is an extremely delicate analysis since the benefit cost associated to each employee is specific to each employee. After much review and analysis of the data, staff were able to recommend a **\$300,000** budget adjustment, to bring the budget increase more in-line with historical trends which is also considered a reasonable indicator of usage rate. For additional clarity, please note that this reflects a budget adjustment only with no changes to benefit packages offered to staff.
3. ***Tools and Equipment*** budget line item was reviewed further to ascertain whether the tools and equipment being budgeted were considered operational or capital in nature. Operational is defined as a consumable that typically needs replacement every year and therefore has a direct impact on the annual property tax calculation; while a capital item typically requires replacement at some point in the future, and therefore is better funded by its respective reserve. As a result of a substantial budget increase being identified during the budget reviews, additional investigation into this budget item was completed, leading to the discovery that **\$155,000** added to this budget line would be more appropriately funded through the respective reserve due to being more capital in-nature.
4. ***Backfill and Vacancy Costs*** are inherent to every organization. The ability to predict backfill costs and vacancy savings is difficult since these costs typically arise from unpredictable or unknown events that happen during the fiscal year. The first iteration of the budget included an increase to backfill costs as a result of what was observed in 2024. However, over the next iterations of the budget review, staff were asked to

revisit possible vacancy savings, also as a result of the vacancies that are typically experienced year-over-year. As such, staff ascertained more reasonable hiring dates based on known constraints and/or recruitment challenges, that would likely result in hiring delays for select positions that resulted in \$230,000 of additional savings identified.

For additional details regarding Business Planning process, members of the public are encouraged to access the online [2025 Business Planning Guidelines](#) documents presented to Council on May 7, 2024.

I hope you find this information useful.

Regards,

Laura Barroetavena
Director of Financial Services