

COUNCIL REPORT

M&C No.	2019-249
Report Date	October 02, 2019
Meeting Date	October 07, 2019
Service Area	Corporate Services

His Worship Mayor Don Darling and Members of Common Council

SUBJECT: Sustainability: Addressing the Deficit 2021-2022

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Common Council.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
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RECOMMENDATION

It is recommended that Common Council receive and file this report.

EXECUTIVE SUMMARY

The Provincial report ***Sustaining Saint John – A Three Part Plan*** (“The Plan”) that was endorsed by Common Council on August 19, 2019 does not address the short-term financial gap for the budget years of 2021 and 2022. As a result, the City is committed to addressing the entirety of the structural deficit in 2021 and 2022. Based on assumptions related to growth and expenditures, financial modelling projects this deficit to be approximately \$11 Million per year.

The City must act immediately to put Saint John on a path to a financially sustainable future. This means making the urgent and responsible actions that ensure the delivery of core municipal services now, and in the long-term, while continuing to focus on growth.

The City Manager is proposing a three-pronged approach to addressing the structural deficit: effectiveness and efficiency reviews, sustainability initiatives, and transformational reforms. Effectiveness and efficiency reviews involve a fundamental analysis of the City’s governance and management systems. The majority of the deficit in 2021 and 2022 will be addressed through the implementation of sustainability initiatives. The second part of the approach consists of approximately sixty (60) initiatives that have been identified to either generate revenue or reduce operating costs. They are organized into the following categories: revenue, service level changes, grants and incentives, City-owned facilities, workforce, and continuous improvement. Collectively these

initiatives target between \$14 and \$16 Million in combined revenue and operating cost reductions, providing some flexibility to achieve a balanced budget for 2021 and 2022. The third part of the approach relates to continued efforts to support the Province in realizing longer-term municipal and property tax reforms (2023 and beyond) and work with the Region to address enhanced regional services and cost sharing.

The three-pronged approach to address the structural deficit is based on a number of assumptions around growth, cost containment, unconditional grant, and transformational reforms. In the event that any of these assumptions are invalid, the plan will need to be reworked.

PREVIOUS RESOLUTION

Common Council Meeting of July 29, 2019

Moved by Mayor Darling, seconded by Councillor Hickey:

RESOLVED that the Finance Committee be directed in collaboration with staff to develop a restructuring plan, which commences implementation in budget 2020 (January) at the latest and addresses the structural deficit currently outlined in the City's current financials. Furthermore, that this plan be broad and consider the 11 major barriers identified in the December budget 2018 documents. Progress on this plan shall be presented to a full meeting of council, as part of the budget 2020 deliberations by the end of September 2019.

REPORT

Background

The key commitment of the Provincial deal to provide bridge funding to the City of Saint John in the amount of \$22.8 Million over three (3) years was to form a Municipal Sustainability Working Group ("Working Group") to identify solutions to address the City's structural deficit and long-term financial sustainability. The Province approved ***Sustaining Saint John – A Three Part Plan*** ("The Plan") as the outcome to this commitment.

Common Council endorsed the Plan on August 19, 2019 with reservations and a commitment to re-assess in March of 2020. The Plan does not address the overarching goal of the Working Group to eliminate the structural deficit on or before January 2021 or put the City on a sustainable path of growth. While there is some financial relief and tremendous potential for 2023 and beyond, **the Plan does not address the short-term financial gap for the budget years of 2021 and 2022.**

Financial Challenge

Simply stated, a structural deficit is a systemic amount by which spending is more than revenue received. The City's costs have been growing at a rate of three (3) percent per year on average, while growth or revenue has only been increasing at a rate of less than one (1) percent on average annually. Over time the gap between costs and revenue has grown substantially. In short, our costs are habitually increasing at a rate 3 times faster than our revenue. This is unaffordable.

Legislation in New Brunswick requires municipalities to balance their respective budgets each year. Bridge funding from the Province was only available to the City for 2018, 2019 and 2020. This means that the City of Saint John must immediately address the deficit forecast to ensure a balanced budget in 2021 and beyond. While the City is committed to addressing the entirety of the deficit for 2021 and 2022, the gap will start to grow again without transformational changes to service delivery and reforms related to municipal property tax and other institutional barriers.

Financial modelling has been completed to understand the magnitude of the forecasted deficit. Calculating the deficit involves a number of variables related to revenue and expenses, with growth being a key driver to supporting a financially sustainable future for Saint John. Assumptions used in the modelling include:

- Tax base assessment growth of 1.5% (based on growth achieved in 2018 and monitoring of current development activity), as approved by the Finance Committee;
- Expenditures based on 'status quo';
- Financial relief commitments outlined in ***Sustaining Saint John – A Three Part Plan***; including the accommodation levy, exemption of property tax on transit facilities, and changes to how funding is allocated for operating and capital costs within the Regional Facilities Commission;
- No changes to the Provincial unconditional grant; and
- Three year projection of financial situation based on the complexity of addressing service impacts, the number of unknowns, and the longer-term commitments outlined in the Plan for 2023.

Modelling the deficit based on these assumptions, the projected deficit in 2021 and 2022 is approximately \$11 Million per year. The deficit figure is nothing but a forecast and will no doubt change as we continue to work towards a balanced budget in 2021 and 2022. The most significant change driver will be our growth rate. Next definitive figures on our growth rate will be available in December 2019.

Addressing the Deficit: A Three-Pronged Approach

Addressing a structural deficit of this magnitude will take a coordinated and dedicated focus of City staff at all levels of the organization and a firm commitment from elected officials within government. A planning and management framework that ensures accountability for results and strategic communications for all key stakeholders will be key to success.

The primary objective of planning must be a focus on putting Saint John on a path to a financially sustainable future. In the short-term, this means taking the urgent and responsible actions that will ensure the delivery of core municipal services now and in the future. This will be achieved by taking a balanced approach to addressing the deficit, looking at all services delivered by the City.

Critical to sustainability is growth. Decision-making related to revenue generation and service delivery need to consider the impact on growth. While the magnitude of the deficit will make it difficult to minimize the impact on growth initiatives, the City must continue to build on the momentum of growth in the City's core to attract citizens and businesses to invest in our community.

A three-pronged approach is proposed to address the overall structural deficit (costs being consistently higher than revenues), with the second "prong" specifically addressing the forecasted deficit for 2021 and 2022:

1. Effectiveness and Efficiency Reviews
2. Sustainability Initiatives
3. Transformational Reforms

Effectiveness and efficiency reviews involve a fundamental analysis of the City's governance and management systems. This includes a review of the City's agencies, boards and commissions (ABCs), economic development framework, and the City's organizational structure. These reviews may not yield specific financial savings, but are designed to develop recommendations that improve alignment of priorities, accountability, and coordination of service activities to achieve common goals and objectives for the community.

The Province of New Brunswick will play a role in assessing the cost-effectiveness of the City's delivery and management of public service. Included in the twenty (20) actions outlined in ***Sustaining Saint John – A Three Part Plan*** is an operational audit. An independent firm will undertake a review of current operational approaches with the aim of assisting the City in identifying savings and revenue opportunities and to strengthen its approach to management going forward. The auditing firm, whose findings will be provided to the City and the Province by March 31, 2020, will be engaged and paid for by the Province. The two levels of government will collaborate to ensure that the scope of the work yields results.

Strategic plans and related policies will support the City in achieving and sustaining long-term financial sustainability. City staff has committed to completing the long-term financial plan and the next phase of the asset management program as part of the approach to addressing the deficit.

The third part of the approach relates to **transformation reforms**. The City will continue to support the Province in realizing longer-term municipal and property tax reforms (2023 and beyond) and work with the Region to address enhanced regional services and cost sharing.

The majority of the structural deficit in 2021 and 2022 will be addressed through the implementation of **sustainability initiatives**. Approximately sixty (60) initiatives have been developed to either generate revenue or reduce operating costs. A Sustainability Implementation Team has been established to manage projects, coordinate initiatives, and report on progress to achieve results that will address the structural deficit. Working under the Deputy City Manager, the team is comprised of the Continuous Improvement Team and several seconded employees (both full and part-time commitments). The Senior Leadership Team is fully engaged and will champion these organization-wide initiatives as the top priority for the City.

Sustainability initiatives have been developed in collaboration with all service areas and a number of the City's agencies, boards, and commissions. Initiatives have been evaluated for ability to implement to address the deficit in 2021 and 2022, while minimizing the impact on growth. The initiatives are organized into six categories that describe the intended impact or outcome for each one. Categories include:

- **Revenue Initiatives** – Opportunities to generate revenue, ensuring appropriate cost recovery and implementing innovative approaches to service delivery
- **Service Level Change Initiatives** – Implementation of changes to service delivery that focus on core service, alignment with best practices, and alternative service delivery models
- **Grants and Incentives Initiatives** – Reduction or elimination of funding offered to other organizations, events, and programs
- **City-Owned Facility Initiatives** – Opportunities to divest or close City-owned facilities, based on utilization, alignment with best practices, and other service delivery models
- **Workforce Initiatives** – Implementation of changes related to how services are resourced and labour costs are managed
- **Continuous Improvement Initiatives** – Implementation of changes that improve the cost-effectiveness of service while not impacting service levels or the public

A summary of each of the sustainability initiatives is outlined in the attached presentation, the exception being Continuous Improvement Initiatives which are listed in one consolidated table with a corresponding target. Collectively, these initiatives target between \$14 and \$16 Million in combined revenue and operating cost reductions. While some initiatives will exceed or achieve desired revenue or operating cost reduction targets, others may not be feasible. A number of initiatives presented as part of this report also need further development to understand potential targets and feasibility. The scope of work presented in the attached presentation provides a starting point for addressing the deficit and will be monitored and adjusted to achieve 2021 and 2022 sustainability objectives in the amount of \$11 Million per year combined revenue and operating cost reductions.

Put another way, the 60+ initiatives should be considered nothing more than ideas at this time. Once they are refined, the City staff will return to Council for deliberation and decision on those that will address the entirety of the deficit for 2021 and 2022.

Moving forward, implementation plans on the major initiatives will be brought forward for Common Council's consideration and approval as required. All of the initiatives under continuous improvement category will be brought forward as a package and approved as part of the budget process. Approval of individual implementation plans will provide the necessary direction to staff on how to proceed.

Implementation of some of the initiatives can happen in the short-term with either resulting revenue or savings incorporated into the 2020 budget. Early completion of these initiatives supports a managed approach to addressing the deficit, both in terms of the resources required to implement changes and understanding the deficit moving forward.

For initiatives that will be implemented as part of the 2020 budget, implementation plans will be presented to Common Council for approval no later than 15 November 2019. Implementation plans for initiatives to address the remaining portion of the deficit in 2021 will be presented to Council for approval no later than end-March 2020. Council will be provided with a schedule of when implementation plans will be presented (note, the schedule may be adjusted over time).

Implementation plans will consist of a detailed description of the initiative, objective(s) outlining what is intended to be achieved, approach to implementation, service impact, investment requirements (if applicable), feasibility in terms of critical success factors, and estimated revenue or cost reduction target.

Our finance department will work closely with the Sustainability Implementation Team and Senior Leadership Team to address the deficit. All assumptions and calculations to determine sustainable revenue and hard savings for each initiative will be validated by Finance. Finance will then make the appropriate amendments to the budget with notes to document sustainability related changes.

Virtually all significant initiatives will require approvals by Common Council to implement. These may include by-law amendments, structural changes or approval of service level changes. As revenue or savings results are achieved, Council will be updated through the standing agenda item on sustainability.

Communications

The City is beyond trimming around the edges to balance the operating budget in 2021 and beyond. While much needed reforms will support a more sustainable future for Saint John, a lot of change will be experienced in the short-term for all stakeholders. A communications strategy has been developed to ensure appropriate information is shared and that engagement with stakeholders is carried out when required.

Managing Expectations

The development of the City's plan to address the forecasted deficit is based on a number of assumptions – any of which if proved to be invalid, would result in an obligation to rework the plan. Managing costs must always be a priority, but a focus on tax-base growth is essential for long-term success. While tax base growth and managing costs are key, municipal reforms, property tax reforms, regional cost sharing and/or changes to institutional barriers by 2023 are paramount to addressing the long-term financial sustainability of the City.

Of critical note, the 60+ initiatives referenced in this Report serve to address the anticipated deficit in 2021 and 2022. They do NOT solve the long-term structural deficit of the City. This can only be accomplished by remaining focused on, and being successful at, the transformational reforms that are required and that have been and will continue to be pursued through multiple avenues.

It is also important to mention that if any of the transformational reforms, including but not limited to regional cost sharing, can be advanced into the 2021 or 2022 timeframe, some of the painful initiatives contemplated within this Report may not be required.

STRATEGIC ALIGNMENT

The development of the three-pronged approach to addressing the City's structural deficit aligns with Common Council's priorities on economic health and being fiscally responsible.

SERVICE AND FINANCIAL OUTCOMES

The sustainability initiatives outlined in the attached presentation are designed to address the projected structural deficit of \$11 Million in 2021 and 2022 through either the generation of sustainable revenue or reduction of operating costs. The total target of these projects is between \$14 and \$16 Million providing some flexibility in achieving the target. Some initiatives will meet or exceed the target, while others may not prove fruitful.

The ability to achieve long-term financial sustainability is dependent on four assumptions: growth, cost containment, no significant change to unconditional grants, and transformational reforms. The Senior Leadership Team, supported by the Sustainability Implementation Team will monitor progress and any changes to these assumptions that require adjustments to the approach.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

Representatives from all service areas have been involved in the development of the sustainability initiatives outlined in the attached presentation. The Senior Leadership Team is committed to supporting the organization in achieving the ambitious goals and objectives outlined in this three-pronged approach in order to address the structural deficit in 2021 and 2022.

Finance and the City Manager's Office have reviewed the report and are supportive of the approach moving forward.

ATTACHMENTS

Presentation – Sustainability: Addressing the Deficit 2021-2022